# FEDERAL EMPLOYMENT TAX ASSESSMENTS AGAINST FEDERAL AGENCIES AND LARGE INTERNAL REVENUE SERVICE ACCOUNTS RECEIVABLE CASES

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## HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT

OF THE

COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

OCTOBER 18, 1990

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# FEDERAL EMPLOYMENT TAX ASSESSMENTS AGAINST FEDERAL AGENCIES AND LARGE INTERNAL REVENUE SERVICE ACCOUNTS RECEIVABLE CASES

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THURSDAY, OCTOBER 18, 1990

House of Representatives,
Committee on Ways and Means,
Subcommittee on Oversight,
*Washington, D.C.*

The subcommittee met, pursuant to call, at 9:30 a.m., in room B-318, Rayburn House Office Building, Hon. J.J. Pickle (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

FOR IMMEDIATE RELEASE
FRIDAY, OCTOBER 12, 1990

PRESS RELEASE #36
SUBCOMMITTEE ON OVERSIGHT
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1105 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D. C. 20515
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# THE HONORABLE J. J. PICKLE (D., TEXAS), CHAIRMAN, SUBCOMMITTEE ON OVERSIGHT, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A PUBLIC HEARING TO REVIEW FEDERAL EMPLOYMENT TAX ASSESSMENTS AGAINST FEDERAL AGENCIES AND LARGE INTERNAL REVENUE SERVICE ACCOUNTS RECEIVABLE CASES

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The Honorable J. J. Pickle (D., Texas), Chairman of the Subcommittee on Oversight, Committee on Ways and Means, U.S. House of Representatives, announced today that the Subcommittee will conduct a hearing to review two components of the Internal Revenue Service (IRS) accounts receivable inventory: the Federal employment tax assessments against Federal agencies and the 100 largest accounts receivable cases.

The hearing has been scheduled for October 18, 1990, beginning at 9:30 a.m., in room B-318 Rayburn House Office Building. The Subcommittee will receive testimony from the Internal Revenue Service, the Department of the Treasury, the General Accounting Office (GAO), and representatives from the Department of Commerce, the Department of Defense, and the U.S. Information Agency.

On February 20, 1990, the Subcommittee on Oversight conducted a hearing to review the IRS accounts receivable inventory. At the hearing, a Subcommittee investigation revealed that the IRS accounts receivable inventory included Federal employment tax assessments against Federal agencies. In follow-up to that hearing, the IRS reported to the Subcommittee that 676 Federal tax entities showed assessed balances due, totalling in excess of $185 million, as of the end of February, 1990. The balances involved withheld employee income taxes and employer/employee social security (FICA) taxes. Upon review of these cases, the Subcommittee has determined that: some Federal agency assessments go back as far as 1982; some Federal agency assessments may have been placed in the uncollectable status; and, some Federal entities repeatedly miss quarterly return filing deadlines.

The Subcommittee asked the GAO to conduct a thorough analysis of the accounts receivable cases involving Federal agencies, and to specifically review the accounts of the 63 Federal entities with assessed employment taxes of over $100,000 each and totalling $178 million. The GAO will provide the Subcommittee with testimony on the cases reviewed, including information on the agencies that did not properly make Federal tax deposits and/or file employer quarterly tax returns as required. Also, the GAO will report on the IRS's handling of these cases.

In announcing the hearing, Chairman Pickle stated that: "During questioning at the earlier hearing, the Subcommittee was frustrated by inconsistent IRS answers as to whether the accounts receivable inventory included agencies of the Federal Government that were not timely remitting employment taxes to the IRS. Further, the Subcommittee was concerned that there were clear inaccuracies in the IRS's records of the accounts over $100 million each, where we certainly would expect IRS to be paying very close attention.

"The issue is one of fundamental fairness. It just isn't fair to vigorously pursue small businesses or other taxpayers for tardiness in paying over-withheld income taxes and social security taxes, while letting Government agency debts sit unattended for years. It just isn't fair that some people struggle to pay taxes due immediately upon receipt of an IRS notice, while others, who owe millions, are rewarded for their 'sit back and wait until they catch me' attitude. The 100 million hard-working taxpayers who pay on time deserve better. IRS has been aware of the Subcommittee's interest in the tax delinquencies of Federal agencies and large-dollar cases since February, so I look forward to a very informative review of these issues with the IRS and the GAO."

## DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Because the oral testimony at the hearing will be presented by invited witnesses only, interested parties are encouraged to provide written statements to the Committee for the printed hearing record. Persons submitting written comments should submit (6) copies by the close of business, Friday, October 26, 1990, to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, room 1102 Longworth House Office Building, Washington, D. C. 20515.

## FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will **not** be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.
4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and public during the course of a public hearing, may be submitted in other forms.

Chairman PICKLE. The Chair will ask the subcommittee to come to order.

We ask our guests if they would please take a seat wherever, if there is a seat available.

I am going to proceed with making an opening statement.

Mr. Schulze is on his way and will join us in just a minute.

I have also asked the witnesses this morning to combine their forces and to condense their testimony.

We have a full committee hearing at 10:30, and this will not be as long a hearing as normally conducted. But, we will follow up the testimony with specific questions and requests for data as we move forward in this area.

At the subcommittee's hearing in February, Congressman Anthony and Congressman Dorgan both asked repeated questions in this area.

Subsequent reports to the subcommittee indicated that, in fact, there were 676 Federal tax entities with balances due in IRS's accounts receivable inventory. The 676 accounts for February 1990 totaled $185 million. As a result, we asked the GAO to review the Federal accounts in the inventory.

The subcommittee has pursued this issue, not because it is a huge slice of the $93 billion accounts receivable pie, but because it is an issue important to good government.

We must be certain our own house is clean, if we are asking all other taxpayers to comply. Taxpayers, whether individuals or corporations, are required to deposit withheld employment taxes and to file related employer returns on time.

Substantial interest charges and penalty sanctions apply for noncompliance. Failure of individuals and corporations to comply with the law can result in liens, levies, or other collection actions for violating return filing rules. In contrast, the GAO has determined that Federal agency delinquencies are not subject to any interest and penalties.

At our earlier hearing, it appeared to the subcommittee as though the IRS wanted to clean up its Federal agency inventory by "sweeping the problem under the rug," and that just was unacceptable.

I believe that the subcommittee's 6-month investigation of this matter has shown several agencies paying delinquent taxes to the IRS of $4.3 million.

Today, we will discuss the specifics of 63 large Federal accounts which the GAO reviewed. Further, each of the witnesses today represents Federal entities that were in the accounts receivable inventory last February, including the Department of the Treasury and the GAO.

For example, the Department of Defense showed a balance due of $150 million; the Agency for International Development showed a balance due of $11 million; and, the Department of Commerce showed a balance due of $5 million.

The second issue—the largest cases in the IRS' accounts receivable inventory—was also reviewed by the GAO in followup to the subcommittee's February hearing. At that hearing, the IRS was questioned about clear inaccuracies in several of the accounts receivable cases in excess of $100 million.

Annually, it appeared that the problem was not that these cases were being handled improperly, but rather that these cases were not being handled at all.

We asked the GAO to look at these large cases and report on IRS' handling of them. Preliminary information from the GAO indicates that the IRS is resolving many of these cases not through collection, but rather through abatements and adjustments. For example, in recent months, IRS abated $2.5 billion in certain large accounts receivable cases which had been carried on IRS's books at $2.7 billion.

In summary, if the Congress is to demand that the IRS reduce its accounts receivable inventory and collect delinquent taxes, it is appropriate that we first look at the specific cases involving the Federal Government and those taxpayers who owe millions of dollars.

I look forward to an open and informative hearing today.

[Chairman Pickle's opening statement follows:]

# OPENING STATEMENT
OF
CHAIRMAN J. J. PICKLE
SUBCOMMITTEE ON OVERSIGHT
HEARING TO REVIEW FEDERAL EMPLOYMENT TAX ASSESSMENTS
AGAINST FEDERAL AGENCIES AND LARGE
INTERNAL REVENUE SERVICE ACCOUNTS RECEIVABLE CASES
THURSDAY, OCTOBER 18, 1990

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Since the Subcommittee's hearing in February of this year, the accounts receivable has increased $9 billion. If historical trends continue, the IRS's accounts receivable inventory should exceed $100 billion by February 1991. The Subcommittee meets today to discuss two components of the over $93 billion IRS accounts receivable inventory. We will look at employment taxes assessed by IRS against Federal agencies, and we will look at the 100 largest accounts receivable cases.

The first issue--employment taxes assessed by IRS against Federal agencies--came up at the Oversight Subcommittee's hearing in February, 1990. At that time, Members of the Subcommittee asked the IRS, quite simply, whether the accounts receivable inventory included Federal agencies and whether there were any Federal agencies not making employment tax deposits and filing returns on time. Quite frankly, IRS's responses were misleading and possibly even false. Subsequent reports to the Subcommittee indicated that, in fact, there were 676 Federal tax entities with balances due in IRS's accounts receivable inventory. The 676 accounts for February, 1990 totalled $185 million. As a result, we asked the GAO to review the Federal accounts in the inventory.

The Subcommittee has pursued this issue, not because it is a huge slice of the $93 billion accounts receivable pie, but because it is an issue important to good government. We must be certain our own house is clean, if we are asking all other taxpayers to comply. Taxpayers, whether individuals or corporations, are required to deposit withheld employment taxes and to file related employer returns on time. Substantial interest charges and penalty sanctions apply for noncompliance. Failure of individuals and corporations to comply with the law can result in liens, levies, or other collection actions for enforcement of the employment tax deposit and return filing rules. In contrast, the GAO has determined that Federal agency delinquencies are not subject to any interest and penalties.

At our earlier hearing, it appeared to the Subcommittee as though the IRS wanted to clean up its Federal agency inventory by "sweeping the problem under the rug," and that just was unacceptable. I believe that the Subcommittee's 6-month investigation of this matter has shown several agencies paying delinquent taxes to the IRS of $4.3 million.

Today, we will discuss the specifics of 63 large Federal accounts which the GAO reviewed. Further, each of the witnesses today represents Federal entities that were in the accounts receivable inventory last February, including the Department of the Treasury and the GAO. For example, the Department of Defense showed a balance due of $150 million; the Agency for International Development showed a balance due of $11 million; and, the Department of Commerce showed a balance due of $5 million.

The second issue--the largest cases in the IRS's accounts receivable inventory-- was also reviewed by the GAO in follow-up to the Subcommittee's February hearing. At that hearing, the IRS was questioned about clear inaccuracies in several of the accounts receivable cases in excess of $100 million each. It appeared that the problem was not that these cases were being handled improperly, but rather that they were not being handled at all. We asked the GAO to look at these large cases and report on IRS's handling of them. Preliminary information from the GAO indicates that the IRS is resolving many of these cases not through collection, but rather through abatements and adjustments. For example, in recent months, IRS abated $2.5 billion in certain large accounts receivable cases which had been carried on IRS's books at $2.7 billion.

In summary, if the Congress is to demand that the IRS reduce its accounts receivable inventory and collect delinquent taxes, it is appropriate that we first look at the specific cases involving the Federal Government and those taxpayers who owe millions of dollars. I look forward to an open and informative hearing today.

# # # #

Chairman PICKLE. I am going to ask Mr. Schulze if he wants to make an opening statement.

Mr. Schulze.

Mr. SCHULZE. Thank you.

Our first hearing in 1990 was on February 20, and it concerned IRS accounts receivable.

Today's hearing probably will be the last of 1990, and we find ourselves returning to the same issue.

This demonstrates how important the accounts receivable issue is to us. Today, we will focus on two special aspects of the accounts receivable issue.

First we will examine the accounts receivable related to Federal agencies. In February we learned that Federal agencies had $185 million of accounts receivable with the IRS.

Federal agencies should set a good example for tax compliance, but it appears that some Federal agencies are delinquent in making timely deposits of their payroll withholding with the IRS.

The subcommittee should examine the reasons for the accounts receivable balance of $185 million. How much of that amount is truly owed to the IRS; how much was actually paid to the IRS but perhaps not properly reflected in IRS records because of some paperwork error?

The second topic for review concerns the largest dollar private accounts receivable cases. The 100 largest cases involve $6.2 billion, which is almost 10 percent of the total caseload.

It makes sense for the IRS to concentrate resources pursuing these large dollar cases. Data show this inventory has been reduced, but that this was achieved by large abatements and adjustments and not by large collections.

I find this result troubling. The subcommittee will want to probe why abatements are high and collections are low.

Mr. Chairman, I want to conclude by expressing my appreciation to you for your leadership of the subcommittee during the 101st Congress. We have tackled the Customs Service and Medicare fraud, pension reform, savings and loan rescue, and foreign transfer pricing abuses.

Much of the legislation which we have developed on these issues has been folded into the budget reconciliation legislation now under consideration. It is gratifying to know that our hard work has been turned into tangible reforms and will result in those reforms being enacted.

I would like to commend your leadership and cooperation. I believe that the subcommittee has a track record which we can be proud of.

I join you in welcoming our witnesses this morning.

Chairman PICKLE. Let me add that I appreciate your recall of these important issues that our subcommittee worked on this session. I think we have had a good productive year.

We would not have had that kind of result if we had not had bipartisan cooperation. We appreciate that very much.

Now I am going to ask Paul Posner, Associate Director for Tax Policy, to come forward.

Then I am going to ask Fred Goldberg, Commissioner of the Internal Revenue Service, to come forward.

We are going to try to combine some of these panels, because we want to get the testimony on the record and to ask as many questions and to inquire of other data as best we can with limited time.

Mr. SCHULZE. Mr. Chairman, I would like to apologize for the busy activity this morning.

We are going to have MFN for China on the House floor. And the full committee is marking up tax legislation this morning. I presume the members will be coming in and out as time permits.

I hope that we have some continuity, because this is an important hearing.

Chairman PICKLE. It is going to be a full day for us, as it has been the last week. We all have to cooperate the best we can.

I am going to ask first that Mr. Posner proceed. He is Associate Director for Tax Policy and Administration Issues at the General Accounting Office.

And then Mr. Goldberg.

We are going to ask you also to submit your statement.

Mr. Posner, if you would be willing, you may revise and extend your remarks.

We will go forward if that is agreeable.

## STATEMENT OF PAUL L. POSNER, ASSOCIATE DIRECTOR, TAX POLICY AND ADMINISTRATION ISSUES, GENERAL GOVERNMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY CHARLES DANIEL, ASSIGNMENT MANAGER; AND ROBERT HOMAN, EVALUATOR

Mr. POSNER. Thank you.

With me is Charlie Daniel, specializing in the Federal agency accounts receivables, and Bob Homan, who has been our specialist looking at the 98 largest accounts.

We are pleased to be here today.

In the first quarter of 1990 Federal agency receivables accounted for $185 million, while the 98 largest receivables accounted for $6.2 billion. To help determine how much of this amount was truly owed by taxpayers, we tracked their disposition from the first quarter of 1990 through August of 1990. We found on both sides that most of the amounts resolved as of August, were erroneously recorded as receivables because of bookkeeping errors, such as misapplied payments caused by IRS and the taxpayer. IRS resolved these amounts by making adjustments to its records and the taxpayers did not owe additional tax.

Nevertheless, when we looked at the 63 largest Federal accounts, we found that 6 of the accounts resolved so far did consist of late agency payments for employment taxes.

For the unresolved amounts, some other agencies may later be found to owe additional taxes once IRS finishes its investigation. Not only do Federal agencies have an obligation to be model taxpayers, but their failure to make timely payments causes the Social Security trust fund to lose interest revenues as well.

Chairman PICKLE. How much revenue did they lose?

Mr. POSNER. We have not calculated. That is a difficult calculation to make.

The amount that was outstanding from the agencies that actually owed money was $4.3 million. Part of that is owed to Social Security trust fund, but we don't have that analysis yet to make that determination.

As I indicated, the Internal Revenue Service records show that 676 Federal entities, more than a quarter of the total entities reporting, owed $185 million, according to Internal Revenue Service records as of February 1990.

Now every Cabinet department was represented, as were a number of independent agencies, including the General Accounting Office, as you indicated, which was reported as having owed $51,000.

Sixty-three Federal entities had balances due of $100,000 or more.

These totaled $178 million or about 96 percent of the total. So accordingly, we chose to track the actions taken on these 63 entities.

Tracking disposition of these 63 accounts, again, through August, helped us show how many actually owed additional taxes.

I want to point to the chart there—maybe we can turn the chart toward you a little bit more—where we have the balance due as of February.

It shows the amount of payments made which are $4.3 million by six entities.

Then on the bottom there it shows that the majority of these accounts so far have been resolved through abatements and adjustments; $141 million of $177.9 were resolved through abatement and adjustments caused not by agencies owing taxes, but by various bookkeeping adjustments due to taxpayer errors and Internal Revenue Service errors.

I want to also stress, however, that six of these agencies, again, did owe money and did pay $4.3 million.

I thought it would be useful to talk to you about each one of those to give an illustration of the problems involved here.

The U.S. Information Agency owed nearly $1.4 million for one quarter in 1988, representing 16 percent of its liability for that quarter.

Officials of the Agency said the underpayment was caused when a payment for nearly $1.4 million was mistakenly voided by Treasury. Nobody knows why, at least that we talked to.

This underpayment was satisfied by applying a $1 million overpayment still on Internal Revenue Service's books from a previous period and a check for the rest from the Agency.

The second case was the Portsmouth Naval Shipyard which owed $282,000 for 1988 and $2.2 million for 1989 quarter, which represented 14 percent of the liability. The agency claimed that it had already paid these taxes, but the payments didn't post to their account so the agency subsequently issued a new check to cover the delinquencies.

Mr. SCHULZE. Do they have copies of the checks?

Mr. POSNER. They gave us a copy of the check record. We also asked them for a copy of the actual deposit slip, which we did not receive.

We have resolved other accounts that way. We did actually get deposit slips. We didn't get one in this case.

The Defense Logistics Agency sent a late payment for almost $1 million, 14 percent of the liability for the quarter that was due, resulted from the Agency not returning a payment Internal Revenue Service erroneously sent back nearly 15 months earlier.

IRS erroneously sent the Agency its payment back and the Agency held on to it for 15 months before finally remitting it to Internal Revenue Service.

Mr. **Schulze**. Did they actually hold that check or had it been deposited?

Mr. **Posner**. Basically what happened, and this frequently happens, the financial office of the Agency received the check. The payroll office is one that does the taxes. They didn't communicate with each other.

To our understanding, the check sat there for 15 months while the payroll people tried to resolve this problem with Internal Revenue Service not knowing——

Chairman **Pickle**. Mr. Posner, let me say to our guests today and to the subcommittee, that we normally would not release the names of the agencies involved and show the amount of delinquency. That is taxpayers confidential information.

So, we are not allowed to do that. However, in this particular instance, we wrote to the agencies involved and asked them to sign a waiver, which they have done.

So the information that is being released normally would not be available. It is with the cooperation of the Federal agencies and with the cooperation of the Internal Revenue Service that we do have this list. I believe it is attached before you.

Go ahead.

Mr. **Posner**. The next example is the Army Communications Command in Fort Monmouth, N.J., which made a payment for the first quarter of 1988 that IRS did not receive until the second quarter.

So IRS recorded the payment in the taxpayers account for the second quarter which caused the entire second quarter to be recorded as being overpaid.

Accordingly, IRS issued the agency a refund. The taxpayers returned the refund amount to IRS but almost a year later, thereby clearing the delinquency.

The taxpayer paid its first quarter late, resulting in what appeared to be an overpayment the second quarter, got the refund, took about a year to finally pay it back and resolve the delinquency on the first quarter books.

Mr. **Schulze**. How late was late? Was it a few days or weeks?

Mr. **Posner**. We think it is several weeks.

Mr. **Daniel**. About 9 months later.

Mr. **Posner**. The payment itself?

Mr. **Daniel**. The refund.

Mr. **Posner**. The late tax payment itself, I believe, was a few weeks late following the first quarter.

Now on page 5, Environmental Protection Agency.

Chairman **Pickle**. I am trying to make a point here. As I see from the chart, in the Department of Defense alone, the record shows that the Department of Defense has been in arrears of $151,000,924. Is that essentially correct?

Mr. POSNER. That is what was on the IRS books as of February. That is right.

Again, much of that was not actually owed. It was due to errors and that kind of thing, but that is what was on IRS's books as of February.

Chairman PICKLE. Whether it was errors or slow processing, nevertheless, that is a general round figure. That is an ongoing type of figure, I presume, unless they clean it up?

Mr. POSNER. Right, right. Again, we did find some Defense agencies that actually did owe additional tax and have to pay some additional money.

Again, I just want to emphasize, the great majority of those accounts were resolved, did not owe additional tax. They were thousands of individual bookkeeping and clerical errors basically.

The Environmental Protection Agency, starting on page 5, underpaid its taxes by $283,000 for four quarters between December 1987 and 1989.

The agency ultimately paid the amount due in June 1990, some 2½ years following the first delinquency period. Further, IRS detection of these insufficient payments was delayed because the agency filed its tax returns up to 9 months late for these quarters.

As a matter of fact, the agency filed three quarterly tax returns within about the same month of each other.

Finally, the State Department owed $45,000 in taxes due to insufficient deposits for the periods December 1985 and December 1987. The amount was paid in June 1990.

I want to stress that there is $32 million, the bottom line there on our chart over there, that remains to be investigated, that has not been resolved yet.

Thirty-six entities are involved and there may be some additional taxes owed from that amount. We have been getting IRS revenue officers factsheets on those cases, but they are still unresolved.

Chairman PICKLE. Those are figures that you compiled at the end of the first quarter to show the status of the lack of payment of withheld funds.

The figures you have shown here, are they as of today or through the last quarter?

Mr. POSNER. As of August 21, 1990. The first one is February. Then you move right down to the bottom of the chart to August.

Chairman PICKLE. Since you have been looking at this thing and we have kind of stuck the needle to them or asked the hot question, have gone to work and paid some of their back payments?

They still have $32 million out there that hasn't been accounted for, correct?

Mr. POSNER. Of that starting inventory of $177 million, that is right.

Again, as noted earlier, as we have been saying, the vast majority of the accounts were erroneously recorded as receivables. I wanted to give GAO's case as an instructive example.

It is one we are quite familiar with. The agency was cited incorrectly as owing tax when deposits were applied either to the wrong tax period or to the wrong account number partly due to our own clerical errors. According to IRS officials, GAO's accounts will be resolved with no taxes due.

In fairness, the opportunity for errors is great in this process.

The Department of Labor alone makes over 200 tax deposits per quarter for the payroll, and numerous other payments, such as annual leave payments and awards.

We found, in fact, that some agencies, according to IRS revenue officers, are making too many payments. The tax rules permit you to aggregate some of your withholdings, up to $3,000 for an 8-month period before you remit them, but agencies are erring on the conservative side and filling out a deposit slip in some cases for every little payment they are making.

In one case for GAO, I think we filled out one for $2.60. People are erring on the conservative side, but it multiplies the opportunities for errors when you make all those different payments.

Mr. SCHULZE. Would the same be true of the private sector?

In other words, the more complex it is and the more you put these layers on, then the more difficult it is for everybody?

Mr. POSNER. That is absolutely correct, yes.

We even noted some IRS revenue officers have difficulty understanding the accounting activity because of its complexity and volume. Addressing your point, we did a study earlier this year and found that fully one-third of the Nation's private employers were penalized at least once during the tax year. I believe it was 1988, for a Federal tax deposit problem. That is one-third of the Nation's private employers.

It is clear this problem is pervasive.

I want to emphasize that while we talk about accounting and bookkeeping errors and they appear trivial, we did observe a more disturbing trend which was late filing of tax returns by Federal agencies.

The most disturbing problem we found here specifically is more than two-thirds of the 63 Federal entities filed their tax returns late. Two-thirds of those 63 filed their tax returns late, in some cases by 9 months or more.

Chairman PICKLE. As far as you know, is that a regular practice?

Mr. POSNER. I think that is fair to say that it is pretty wide spread. I think it is probably fair to say it reflects the crush of other things they have to do, limited staffing and, frankly, lower priority placed on this versus other things. IRS' detection of late and insufficient payment is delayed when returns are not filed on time.

We believe changes in the payment requirements for Federal agencies would help here. Current problems stem, we think, from applying the same deposit and collection process designed for private taxpayers to Federal taxpayers.

This results in such anomalies as Federal agencies issuing checks through the Department of Treasury to pay other Federal, another Treasury instrumentality, IRS, for their taxes.

In one case the State Department said checks for over $2 million had been lost twice. The Department of Education has also had lost checks.

That seems to be a fairly pervasive problem as well. The State Department's case caused, I believe, a 4- or 5-year delay in resolving discrepancies in the agency's account. They are still looking for one check.

Clearly we feel it is time for Treasury to consider simplifying the payment and filing process for Federal agencies, perhaps by adopting a bookkeeping type of adjustment process or electronic filing.

Let me briefly turn to the 98 largest accounts. We studied 98 rather than 100 because there was overlap in a couple of them, which is the chart up there.

As you can see, the total amount due from these taxpayers started off at $6.22 billion as of March 31, 1990.

Again as was noted, the bulk of the activity to date consisted of abatements and adjustments of the amounts owed, that is $2.51 billion due to, again, errors, misapplied payments, erroneous assessments that IRS abated.

Only $40 million of it was actually collected, was an actual payment from 25 of those 98 taxpayers. There is a lot of overlap.

In other words, a number of them paid a small amount but had the rest abated. That is why there is a lot of overlap between those two figures.

The vast majority so far, so far have been abated and adjusted by IRS rather than paid.

The bottom line there is at the end of August, August 21, over $3.5 billion was still owed by 74 of the original 98. IRS has already made progress in collecting some of these receivables by establishing installment agreements or settlement agreements with some of these taxpayers.

Chairman PICKLE. That means to me that IRS has accounted for, or made adjustments in about half of that total, from $6.2 to $3.5 billion. IRS handled about half of the amount, that is all?

Mr. POSNER. That is right. I think it is fair to say, though, that the initial activity consisted of adjustments because those were to some extent the ones that were most readily resolved.

The collections are going to take longer, so I think it is fair to say that we are going to get something out of that additional $3.5 billion. The question is how much and when.

As I say, we do have some installment settlement agreements already in the works. We have agreements that have been reached with at least 15 of those taxpayers for at least partial payment on about $1.8 billion of that $3.5 billion, and not all $1.8 billion is going to be collected. Most of it probably won't be, but some of it will.

As a result of recent bankruptcy case, for example, the taxpayer with one of the largest accounts had agreed to pay about 30 percent of the amendment owed.

We do think that IRS faces considerable difficulties in collecting from a lot of those taxpayers. We talk about errors. We talk about account adjustments. That is true. A lot of these people, though, are tough cases. They have no assets. They can't be located.

We have an example on page 8 that you can refer to, a drug dealer. IRS assessed $29 million in back taxes for 1981 through 1983 based on his court testimony. IRS was able to seize his known assets, including cars, vessels, aircraft, minesweeper, sold them for $360,000. But the prospect for collecting the remaining amount is slight because the taxpayer is deceased and no other assets can be located.

We do have a table we provided at the back of my statement which has a list of the kinds of taxpayers, the types of taxpayers that comprise these 98 largest accounts. As you can see, we have got them split by business and individual. Seven of them are Government.

Here, unlike the Federal agencies, we did not receive releases to discuss the individual cases. I would just add that 89 percent of these accounts are over 5 year's old. IRS may not be able to realize some of this revenue potential unless extensions to the 6-year statutory collection period are obtained.

In conclusion, let me make a few observations. One is that our study points to the importance of IRS taking actions to determine the real value of this accounts receivable inventory.

We believe the agency needs to adjust its inventory to account for cases not representing real receivables so they can focus its valuable revenue officer's resources on the most, the accounts with the most collection potential.

Moreover, we think that actions such as simplifying the tax deposit system for Federal agencies and all taxpayers and enhancing efforts to reduce the number of erroneous assessments will go a long way toward the prevention of overstated receivables.

I would point to a July 1990 report that we issued on the Federal tax deposit system where we recommended a broad sweeping reform of that system, which I have right here.

Until other alternatives are available, it is our view that agencies as well as private taxpayers should meet their responsibility to file tax returns on time and make proper tax deposits.

That concludes my statement.

[The statement and attachments follow:]

STATEMENT OF PAUL L. POSNER, ASSOCIATE DIRECTOR, TAX POLICY AND ADMINISTRATION ISSUES, GENERAL GOVERNMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE

We are pleased to be here today to assist the Subcommittee in its continuing inquiry into IRS' accounts receivable inventory. As you requested, Mr. Chairman, our testimony today focuses on IRS' accounts receivable from federal government agencies for employment taxes and IRS' largest accounts receivable--accounts comprising 10 percent of the $67.7 billion receivables inventory.[1]

In the first quarter of 1990, federal agency receivables accounted for $185 million while the 98 largest receivables accounted for $6.2 billion.[2] To help determine how much of this amount was truly owed by taxpayers, we tracked their disposition through August 1990 and found that most of the amounts resolved as of August were erroneously recorded as receivables because of bookkeeping errors, such as misapplying payments, caused by both IRS and taxpayers. IRS resolved these amounts by making adjustments to its records, and the taxpayers did not have to pay additional taxes.

Nevertheless, when we looked at the 63 largest federal accounts, we did find that 6 of the accounts resolved so far consisted of late agency payments on employment taxes. For the unresolved accounts, some other agencies may be found to owe additional taxes once IRS finishes its investigation. Not only do federal agencies have an obligation to be model taxpayers, but their failure to make timely tax payments causes the Social Security Trust Fund to lose interest revenue as well.

## FEDERAL AGENCY ACCOUNTS RECEIVABLE

Currently, federal agencies, like other employers, are required to deposit withheld income and social security taxes as well as their portion of social security taxes through the Federal Tax Deposit (FTD) System, and to file quarterly returns. Many federal agencies pay their taxes by authorizing the Treasury to issue checks. They must also submit an FTD coupon with each payment like other employers. However, federal agencies, unlike other employers, are not liable for paying penalties and interest if they fail to meet deposit and filing requirements because they cannot legally use funds appropriated for other purposes to pay penalties and interest.

IRS records showed that 676 federal entities--more than a quarter of those reporting--owed $185 million in back taxes as of February 24, 1990.[3] Every Cabinet department was represented, as were a number of independent agencies, including the General Accounting Office, which was reported as owing $52,000. Sixty-three federal entities had balances due of $100,000 or more, totaling about $178 million, or about 96 percent of the amount due from federal entities. Therefore, we chose to track actions taken on receivables from these 63 entities. The 63 included 49 defense-related entities.

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[1] These amounts for the first quarter of 1990 exclude interest and penalties. The accounts receivable inventory is $89 billion when interest and penalties are included.

[2] With regard to the largest receivables, we analyzed the largest 98, rather than the largest 100, as requested by the Subcommittee. We asked IRS for a list of the 100 largest receivables, but the list IRS provided only included 98 taxpayers. In some instances, the same taxpayer is in two IRS databases, and therefore appeared among the 100 largest receivables twice when we combined information from the databases.

[3] We refer to entity rather than agency because a federal agency may have numerous taxpaying entities, including employee associations, reporting to IRS. Each entity has its own identification number and accounts. IRS' records are maintained by entity, not agency, and, in some instances, information in IRS' records is not descriptive enough to identify which agency the entity belongs to.

Tracking the disposition of these 63 accounts through August helps reveal how many actually owed additional taxes. As the table in attachment I shows, the vast majority of the resolved amount--$141 million for 48 of the 63 entities--was not caused by owed taxes but rather was resolved by IRS bookkeeping adjustments such as abatements of tax assessments and corrections of misapplied payments caused by IRS or taxpayer errors. However, 6 of these 63 entities actually paid $4.3 million in additional tax to resolve their accounts. It would be helpful to discuss each of these cases at this point:

-- The United States Information Agency owed nearly $1.4 million for one quarter in 1988, representing 16 percent of its liability for that quarter. Officials admitted that the underpayment was caused when a payment for nearly $1.4 million was mistakenly cancelled by Treasury. This underpayment was satisfied by applying a $1 million overpayment still on IRS' books and a check from the agency for the rest.

-- The Portsmouth Naval Shipyard owed $282,000 for a 1988 quarter (2 percent of its liability) and $2.2 million dollars for a 1989 quarter (14 percent of its liability). The agency claimed that it had already paid these taxes, but that the payments did not post to its accounts. The agency subsequently issued new checks to cover these delinquencies.

-- The Defense Logistics Agency sent a late payment for almost $1 million, 14 percent of its liability for the quarter in which it was due, that resulted from not returning a payment IRS send back in error nearly 15 months earlier.

-- The Army Communications Command, Ft. Monmouth, New Jersey, made a late tax payment for the first quarter of 1988 that IRS did not receive until the second quarter of that year. IRS recorded the payment in the taxpayer's account for the second quarter. This caused the second quarter's account to be overpaid and, as a result, IRS issued the taxpayer a refund. The taxpayer returned the refunded amount to IRS almost a year later, thereby clearing the delinquency.

-- The Environmental Protection Agency underpaid its taxes by $283,000 for four quarters between December 1987 and March 1989. The agency ultimately paid the amount due in June 1990 some 2-1/2 years following the first delinquency period. IRS' detection of these insufficient payments was delayed because the agency filed its returns up to 9 months late for these quarters.

-- The State Department owed $45,000 in taxes because of insufficient deposits for the periods ending December 1985 and December 1987. This amount was paid in June 1990.

Some other agencies may be found to owe additional taxes once IRS and the agencies finish their investigation of the remaining $32.3 million not yet resolved through either payments or adjustments. For example, IRS collection officials indicate that Walter Reed Army Medical Center may owe $300,000.

As noted earlier, the great majority of agency accounts examined were erroneously recorded as receivables because of accounting, clerical, and tax processing mistakes caused by both IRS and the agencies. GAO's case is instructive. The agency was incorrectly recorded as owing tax when tax deposits were applied either to the wrong tax period or to the wrong account number (GAO maintained three accounts for three separate entities), partly because of clerical errors on GAO's part. According to IRS officials, GAO's accounts will be resolved with no taxes due.

In fairness, the opportunity for errors in the tax deposit process is great. The Department of Labor alone makes over 200 tax deposits per quarter for payroll and numerous interim payments made to its employees. Even IRS revenue officers have difficulty understanding account activity because of its complexity and volume. In addition, fully one-third of the nation's private employers were penalized for violating the complex rules governing tax deposits in 1988.

However, in addition to clerical and bookkeeping errors, we observed a more disturbing pattern--late filing of tax returns. More than two-thirds of the 63 federal entities filed tax returns late. IRS' detection of late and insufficient payments is delayed when returns are not filed on time.

We believe changes in the payment requirements for federal agencies would help to avoid unnecessary administrative problems for IRS and the agencies. Currently, problems stem from applying the same deposit and collection process designed for private taxpayers to federal agencies. This results in such anomalies as federal agencies issuing checks through the Department of the Treasury to pay another federal agency--IRS--for taxes. In one case, the State Department said that checks for over $2 million have been lost twice, causing a delay of over 2 years in resolving discrepancies in this agency's account and costing many staff hours.

Recognizing the unique nature of federal agency tax payments as intragovernmental transfers, the Treasury should administratively streamline its payment and filing process by adopting simpler procedures for processing federal payments and return information such as using bookkeeping adjustment or electronic funds transfer.

## LARGEST DOLLAR ACCOUNTS RECEIVABLE

Let me now briefly describe the results IRS has obtained from its focus on the largest receivables. As shown in the table in attachment II, the total amount due from the 98 largest receivables decreased by $2.7 billion (44 percent) between March and August 1990. Nearly all of the decrease was due to abatements and adjustments of amounts resulting from erroneous assessments and misapplied payments, with only $40 million due to collections.

As of the end of August, over $3.5 billion was still owed by 74 of the original 98 taxpayers. IRS has already made progress in collecting some of these receivables by establishing installment or settlement agreements. For example, the table in attachment III showing the status of these remaining largest receivables indicates that agreements have been reached with 15 taxpayers for at least partial payment on assessed taxes of $1.8 billion. As a result of a recent bankruptcy case, a taxpayer with one of the largest accounts has agreed to pay about 30 percent of the amount owed. Thus, we believe that it is reasonable to expect that substantial amounts eventually will be collected.

IRS faces considerable difficulties in collecting from other taxpayers who have no assets or cannot be located. One example is a drug dealer whom IRS assessed $29 million in back taxes for 1981 through 1983 based on his court testimony. IRS seized his known assets--including luxury cars, vessels, aircraft, and a minesweeper--and sold them for $360,000. IRS' prospects of collecting the remaining taxes are slight because the taxpayer is now deceased and no other assets have been located. The table in attachment IV lists the types of taxpayers comprising the 98 largest accounts receivable.

Even for those accounts with potential collections, 89 percent are over 5 years old, so IRS may not be able to realize the revenue potential unless extensions to the 6-year statutory collection period are obtained.

## OBSERVATIONS

Our study of these two groups of receivables again points to the importance of IRS' taking action to determine the real value of the accounts receivable inventory, including federal agency and largest dollar receivables. We believe that IRS needs to adjust its inventory to account for those cases that do not represent real receivables. Further, IRS should focus its collection efforts on receivables that have the greatest potential to result in additional revenue.

Such actions as simplifying the federal tax deposit system for federal agencies and all taxpayers and enhancing efforts to reduce the number of erroneous assessments and misapplied payments will go a long way toward the prevention of overstated receivables. For example, in a July 1990 report, we recommended a broad reform of federal tax deposit requirements that could help reduce errors and delinquencies caused by the complexity of the current process.[4] However, until other alternatives are available, it is our view that agencies must meet their responsibility to file tax returns on time and make prompt tax deposits.

This concludes my prepared statement. I would be pleased to answer any questions you may have.

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[4] Tax Policy: Federal Tax Deposit Requirements Should Be Simplified (GAO/GGD-90-102, July 31, 1990).

## FEDERAL AGENCY RECEIVABLES OVER $100,000 ANALYSIS OF CHANGE IN BALANCE DUE PER IRS' RECORDS BETWEEN FEBRUARY 24, 1990, AND AUGUST 21, 1990

(Dollars in millions)

| | | |
|---|---|---|
| Balance due on February 24, 1990 | $177.9 | 63 entities total[a] |
| Less payments | ( 4.3) | 6 entities involved |
| Subtotal | $173.6 | |
| Less abatements & adjustments | (141.3) | 48 entities involved |
| Balance due on August 21, 1990 | $ 32.3[b] | 36 entities involved |

[a] Some entities made payments and also had amounts abated or adjusted. Further, some entities that had amounts abated or adjusted still had balances due as of August 21, 1990. Therefore, the number of entities in this column do not add to 63.

[b] $13 million dollars of this balance is currently expected to be written-off through adjustments and abatements.

ATTACHMENT II ATTACHMENT II

## THE 98 LARGEST ACCOUNTS RECEIVABLE ANALYSIS OF CHANGE IN BALANCE DUE PER IRS' RECORDS BETWEEN MARCH 31, 1990, AND AUGUST 21, 1990

(Dollars in billions)

| | |
|---|---|
| Balance due March 31, 1990 | $6.22 |
| Less payments | (0.04) |
| Less statutes expired | (0.17) |
| Less abatements & adjustments | (2.51) |
| Balance due August 21, 1990 | $3.50 |

## STATUS OF THE 98 LARGEST ACCOUNTS RECEIVABLE PER IRS' RECORDS AS OF AUGUST 21, 1990

(Dollars in billions)

| Status | Number of taxpayers | Balance |
|---|---|---|
| Installment or settlement agreements pending/reached | 15 | $1.78 |
| Insolvent, unable to locate or incarcerated | 18 | .60 |
| Litigation or IRS appeals | 20 | .50 |
| Collection being pursued by revenue officers | 6 | .36 |
| IRS expects soon to clear balance due | 10 | .21 |
| Under review by IRS exam or criminal divisions | 5 | .07 |
| No balance due | 24 | ( .02) |
| Total | 98 | $3.50 |

## THE 98 LARGEST ACCOUNTS RECEIVABLE BALANCES DUE AND NUMBER OF ACCOUNTS PER IRS' RECORDS AS OF MARCH 31, 1990, AND AUGUST 21, 1990, BY TYPE OF TAXPAYER

(Dollars in billions)

| | March 1990 | | August 1990 | |
|---|---|---|---|---|
| | Number | Balance | Number | Balance |
| Business | | | | |
| Petroleum | 10 | $0.9 | 7 | $0.4 |
| Energy-related | 3 | 0.3 | 3 | 0.3 |
| Financial | 5 | 0.1 | 4 | 0.1 |
| Investment companies | 5 | 0.2 | 2 | 0.1 |
| Transportation | 6 | 0.4 | 5 | 0.4 |
| Other | 24 | 1.0 | 16 | 0.3 |
| Subtotal | 53 | 2.9 | 37 | 1.6 |
| Individual | | | | |
| Drug dealing/ money laundering | 4 | 0.2 | 3 | 0.1 |
| Incarcerated | 4 | 0.1 | 4 | 0.1 |
| Deceased | 3 | 0.1 | 3 | 0.0[a] |
| Other | 19 | 1.5 | 18 | 1.5 |
| Subtotal | 30 | 2.0 | 28 | 1.7 |
| Government | | | | |
| Foreign | 1 | 0.0[a] | 0 | 0.0 |
| Federal | 4 | 1.0 | 0 | 0.0 |
| State & local | 2 | 0.1 | 1 | 0.0[a] |
| Subtotal | 7 | 1.1 | 1 | 0.0 |
| Estates | 8 | 0.2 | 8 | 0.2 |
| Total | 98 | $6.2 | 74 | $3.5 |

[a] Less than $50 million.

Note: Totals may not add because of rounding.

Chairman PICKLE. I thank you.

Mr. Posner, your entire statement will be made a part of the record. I appreciate your summarization of these various examinations.

Mr. Goldberg, how do you plead? We appreciate your attendance this morning and look forward to your testimony. We will include all of your statement in the record.

## STATEMENT OF HON. FRED T. GOLDBERG, JR., COMMISSIONER OF INTERNAL REVENUE, ACCOMPANIED BY RAY KEENAN, ASSISTANT COMMISSIONER (COLLECTION); AND ROBERT HUNT, BRANCH CHIEF, COLLECTION DIVISION, BALTIMORE DISTRICT

Mr. GOLDBERG. Thank you. I will try to keep my remarks brief.

With me are Ray Keenan, our Assistant Commissioner (Collection). I am also joined by Robert Hunt, a branch chief in our Collection Division of the Baltimore District.

This subcommittee adopted a practice of having our employees in the field who are doing the real work appear before you to testify. I applaud you for that practice. I think those folks outside the beltway, so to speak, who live in the real world of tax administration have an enormous amount to contribute, and I thank you for taking the time to hear their statements. I would like to thank Bob for being here today.

My written testimony addresses the subject matter of today's hearing in great detail. In the interest of time, I would like to summarize the results of our review. I will read from my testimony starting at page 2.

Turning first to large dollar cases, with respect to large dollar cases involving more than $50 million of assessments, we are continuing to make progress in managing these cases, and are seeing some decline in the number of cases and dollars reflected in this portion of our inventory. Subject to overall economic conditions, this favorable trend should continue and accelerate during fiscal year 1991.

Most of these cases do not involve dollars owed to the Federal Government; they represent erroneous assessments resulting from taxpayer, third party, or IRS mistakes—mistakes that are caused by needless complexity, outmoded systems, and obsolete procedures—as well as good old fashioned human error——

Chairman PICKLE. Let me interrupt you.

If you say these figures represent erroneous assessments such as, and then you list them, then when you give to us information that you have so much in the accounts receivable inventory, we must assume that it is really not accounts receivable that represent real dollars; do they?

Mr. GOLDBERG. As we testified on February 20 of this year, we believe of that $90 billion accounts receivable inventory, you are talking about, some portion of it is erroneous assessments.

Mr. Posner has testified that is true with Federal agencies. It is true with large dollar accounts. Tens of billions of dollars are owed the Federal Government. All of us agree we have got to eliminate the erroneous assessments and spend our valuable time collecting dollars that are really owed.

Chairman **Pickle**. I guess I am concerned about the appearance to this subcommittee. We try to understand the technicality involved. We are concerned that the public is told over and over that we have $100 billion in the accounts receivable inventory and you tell us that is just on paper only and that you can explain it. People are confused. They are bound to ask themselves why should I be paying my taxes or why should I be paying additional taxes or why are you making cuts in our benefits when you have got $100 billion out here in the accounts receivable inventory and another $100 billion in the tax gap?

That is a very normal question that they are going to be asking, particularly this time when we are trying to meet a huge $500 billion deficit. Then you come to me and say we have got $100 billion but that really doesn't count. It is just play money or paper only.

I am saying we have got to find a better way to either explain this or a better way to account for the dollars. I make that observation because it is disturbing to have you say now that we have made erroneous assessments.

We do know of this $100 billion, there is some $32 billion that is real.

Mr. **Goldberg**. Mr. Chairman, I agree with you.

As we have said, it is critical that we come up with a correct statement of what is owed the Federal Government. That is terribly important. We believe that during 1991 we will come up with that figure. That figure is going to be $30 billion, $40 billion, an enormous sum, but it is a more honest statement.

We agree completely with the General Accounting Office. One of the most important things we are trying to do as an agency is to more fairly and accurately describe our accounts receivable inventory. In technical terms, what we are talking about is an allowance for doubtful accounts, like every other business has. A portion of the $90 billion is not going to be collectible because it wasn't owed or because the taxpayer doesn't have any more assets. What we are interested in is what is owed and what can we collect and how quickly can we collect it and how can we increase collectibility at the margin.

I agree with everything you are saying. I believe that during the current fiscal year we will be in a position to provide you and the American public with that information.

Chairman **Pickle**. I hear that and I want to accept it. I think the testimony Mr. Posner has just given us that in the accounts receivable you have at least $175 million from Federal agencies who have not paid their taxes on time. If that is a common practice, that is disturbing to this subcommittee because of all taxpayers who ought to pay their taxes on time, it ought to be our own government.

I didn't want to interrupt your testimony, you can go ahead.

Mr. **Goldberg**. I appreciate that, Mr. Chairman.

I think it is important that we work through this because the American public has a right to demand that everyone involved pays their fair share, and the Government has to do it better than anyone else. I think you are absolutely right.

With respect to those large dollar cases that do involve proper assessments because the money is really owed, it is important to emphasize that a portion, a significant portion of these dollars will not be collected in the near future and may never be collected.

Most often these dollars are tied up in bankruptcy proceedings that take years to resolve or substantive litigation over the merits of the Government's claim. On some occasions they involve drug dealers and other fugitives from Justice.

With respect to the large dollar inventory, in the $1 to $50 million range, we are also making progress. More of these assessments do represent moneys owed the Federal Government. Our efforts in the vital few, enhanced management attention, systems modernization and simplification initiatives will assure that these cases are closed more quickly and that collectibility is enhanced in the years ahead.

With respect to our Federal agency accounts receivable inventory: As a preliminary matter, it is worth noting that Federal agencies each year make more than 40,000 deposits involving more than $7 billion.

While we are carrying more than 1,000 assessments of Federal agencies on our books, involving more than $100 million, they do not represent moneys owed the Federal Government. In virtually every case, they reflect erroneous assessments resulting from agency, IRS or third-party errors.

The General Accounting Office has testified. If you go back to that first chart they put up, they show we have resolved, by their numbers, $145 million in Government accounts during the period of their review; $141 of that $145 or more than 95 percent wasn't money that was owed to begin with.

Now——

Chairman PICKLE. They were erroneous assessments?

Mr. GOLDBERG. Yes, sir.

Chairman PICKLE. They made that many mistakes?

Mr. GOLDBERG. Yes, sir. I think Congressman Schulze was right on the mark. I think that same problem that affects corporate taxpayers affects the General Accounting Office and the Internal Revenue Service.

Let me get through this.

There are cases where there are underpayments. Generally they are small in amount and of short duration. I don't want to minimize that $4 million. The Federal Government has got to be held to a zero defects standard. Any delay, any underpayment is unacceptable. Nonetheless, the plain fact is that Federal agencies are exceptionally compliant overall in meeting their deposit requirements.

Over the last 4 or 5 years, which is the periods these cases cover, the Federal Government agencies have deposited timely $30 to $40 billion. Unfortunately, as the GAO has testified, the same cannot be said regarding their return filing requirements. The fact is that while most Federal agencies do well in this regard, there are instances of chronic late filers and those whose returns are inaccurate or incomplete.

The problem with our Federal agency accounts receivable inventory—and much of our other very large dollar case inventory—is not that it represents dollars due the Federal Government. Rather, it symbolizes the needless waste of taxpayers dollars that will be spent to correct erroneous assessments. The real issue is quality, not accounts receivable. We all need to do it right the first time, so that erroneous assessments can be avoided from the outset.

If we pursue the following strategy, we believe that the Federal agency accounts receivable inventory can be reduced dramatically over the next several years. First, we need to continue our broad-based efforts in the accounts receivable area: The vital few, systems modernization and simplification.

Page 6 lists the steps I believe we need to take to essentially eliminate the Federal accounts receivable problem.

Second, we need to provide Federal agencies with the means to make electronic deposits in lieu of payment by check; update and amplify Treasury Financial Manual provisions and other guidance provided Federal agencies; centralize accountability for Federal payroll tax compliance matters within the IRS and within each Federal agency.

We must implement an ongoing program of IRS-sponsored training and outreach for Federal agencies. Finally, we must develop methods to assure executive level accountability for late or erroneous filings—for example, a reporting or certification procedure.

We need to make this matter important enough so the Federal agencies do it right the first time. If returns are late, if returns are inaccurate, if we make mistakes, the problem is not that the Government is being deprived of tax revenue. The problem is the Internal Revenue Service and the other agency, whether it is the Department of Defense, Department of Commerce, the EPA, they are spending their tax dollars to fix a mistake. It is a waste and we need to remedy it.

The rest of my testimony addresses these issues in greater detail. I would merely like to call your attention to two pieces of information. The first is on page 14, page 14 in the preceding discussion indicates and sets forth in quantified terms some indication of the progress we are making.

We have a long way to go in accounts receivable. If you look at the increase in dollars collected per staff year between 1988 and 1990, it has increased from $388,000 to $471,000.

In our nonfiler program, the dollars assessed for staff year has increased from $195,000 to $366,000. Despite a 2-year hiring freeze, we project the dollars collected between 1988 and 1990 will increase from $23.3 to $25.8 billion.

Of perhaps greatest significance, the continuing growth in unadjusted accounts receivable inventory was 9.9 percent. It grew at 12.8 percent in 1989. Again, despite a 2-year hiring freeze, we believe we will have slowed that growth to 8.6 percent in fiscal year 1990; 8.6 percent is too high, but we are moving in the right direction, and I am proud of the way we are heading.

The other item I would like to refer your attention to is on page 22. One of the issues of concern to this committee has been large dollar cases. I think quite properly this committee and the General Accounting Office called us to task not for our mishandling of these cases, but for our failure to properly provide the data that you and the American public are entitled to regarding large dollar liabilities.

Attached to my testimony is a chart showing the evolution of large dollar cases, those cases over $50 million, that reflects the progress we are making in this area.

In June of this year, we had 21 cases over $50 million in inventory, representing a total balance due of $3.9 million. At the end of September, we had 17 cases in inventory with a total balance due of $3.2 billion. Thirteen of these seventeen cases had been in our inventory in June and were not closed between June and September.

Why have we not closed those 13 cases? Well, six of those cases involving $1.7 billion are in bankruptcy and are under the control of the bankruptcy courts. Two of those cases totaling $284 million are in the process of being adjusted. One case for $61 million is in litigation, awaiting a court decision. One case of $73 million involves a drug dealer and collection is being enforced against available assets.

As GAO testified, that is an exceedingly difficult and time consuming process. One case totaling $250 million is in the appeals process pending resolution of the underlying issue regarding liability. One case of $121 million is unlikely to be collected because of lack of taxpayer assets.

Finally, $262 million is an estate tax account where under the law that estate has 15 years to make payment. So we will be carrying that $262 million in our inventory for 15 years. The estate is doing what it should.

Of the four cases we opened after June of this year, three are being closed out as erroneous assessments. We are wasting our time. We are wasting the citizens' time. One of those cases is a legitimate dispute that is pending in litigation.

Mr. Chairman, I believe we are making progress. We have a long way to go. I believe that much of the progress we have made this year is attributable to the attention you and your colleagues have focused on this issue. I want to thank you for that effort.

I would also like to take this opportunity to thank you and your colleagues for your support for adequate funding of the Internal Revenue Service. The Appropriations Committee actions, I believe, is the fruits of that effort on your part.

Again, I think we and more importantly, the American public, owe you a vote of thanks.

Thank you very much, Mr. Chairman.

[The prepared statement and attachments follow:]

# STATEMENT OF
# FRED T. GOLDBERG, JR.
# COMMISSIONER OF INTERNAL REVENUE

# BEFORE THE

# SUBCOMMITTEE ON OVERSIGHT
# HOUSE COMMITTEE ON WAYS AND MEANS

# OCTOBER 18, 1990

Mr. Chairman and Members of the Subcommittee:

I am here today at your request to describe our accounts receivable efforts related to large dollar cases and to federal agencies. These topics were initially discussed at your February 20 hearing and in subsequent correspondence between us, and we believe it is important to view these two areas in the larger context of our overall inventory. We appreciate your attention and focus on these issues, and we are doing better because of it.

With me today are Ray Keenan, the Assistant commissioner (Collection), and Robert Hunt, a branch chief in the Collection Division of the Baltimore District, as well as officials from other IRS functions involved in accounts receivable. We will be happy to respond to any questions you or the Members may have at the conclusion of my statement.

## OVERVIEW

Before addressing the subject matter of today's hearing in detail, I would like to summarize the results of our ongoing efforts and current review of large dollar cases and federal agency accounts receivable.

With respect to large dollar cases (those involving assessments of more than $50 million):

- We are continuing to make progress in managing these cases, and are seeing some decline in the number of cases and dollars reflected in this portion of our inventory. Subject to overall economic conditions, this favorable trend should continue and accelerate during FY 1991.

- Most of these cases do not involve dollars owed the federal government; they represent "erroneous assessments" resulting from taxpayer, third party, or IRS mistakes -- mistakes that are caused by needless complexity, outmoded systems, and obsolete procedures (as well as good old fashioned human error). These mistakes are exceedingly cumbersome, costly and time-consuming to correct.

- Most of those cases that do involve proper assessments do not involve dollars that will be collected in the near future (if ever). Most often, they are tied up in bankruptcy proceedings or substantive litigation over the merits of the government's claim. On some occasions, they involve drug dealers and other fugitives from justice.

- With respect to large dollar cases in the $1 million to $50 million range, we are also making progress. More of these assessments represent dollars due and owing; our efforts across the board -- the Vital Few, enhanced management attention, systems modernization, and simplification initiatives -- will assure that these cases are closed more quickly and that collectibility is enhanced in the years ahead.

With respect to our federal agency accounts receivable inventory:

- As a preliminary matter, it is worth noting that federal agencies each year make more than 40,000 deposits involving more than $7 billion.

- While we are carrying more than a thousand assessments of federal agencies on our books, involving more than $100 million, they do not represent monies owed the federal government. In virtually every case, they reflect "erroneous assessments" resulting from agency, IRS or third-party errors.

- Occasional underpayments or delays in payment do occur -- but they are generally small in amount, of short duration, and remedied quickly. I don't want to minimize these occurrences. The federal government should be held to a "zero defects" standard -- any delay or underpayment is unacceptable. Nonetheless, the plain fact is that federal agencies are exceptionally compliant in meeting their timely deposit requirements.

- Unfortunately, the same cannot be said regarding their return filing requirements. While most do well in this regard, there are instances of chronic late filers, and those whose returns are inaccurate or incomplete.

- The problem with our federal agency accounts receivable inventory (and much of our other very large dollar case inventory) is not that it represents dollars due the federal government. Rather, it symbolizes the needless waste of taxpayers dollars that will be spent to correct erroneous assessments. The real issue is quality, not accounts receivable. We all need to "do it right the first time", so that erroneous assessments can be avoided from the outset.

- If we pursue the following strategy, we believe that the federal agency accounts receivable inventory can be reduced dramatically over the next several years:

    - Continue our broad-based efforts in the accounts receivable area: the Vital Few, systems modernization, and simplification.

    - Provide federal agencies with the means to make electronic deposits in lieu of payment by check.

    - Update and amplify Treasury Financial Manual provisions and other guidance provided federal agencies.

    - Centralize accountability for federal payroll tax compliance matters within the IRS and within each federal agency.

    - Implement an ongoing program of IRS-sponsored training and outreach for federal agencies.

    - Develop methods to assure executive level accountability for late or erroneous filings (*e.g.*, a reporting or certification procedure).

Mr. Chairman, I would now like to turn to the balance of my testimony.

## STEADY BUDGETS MEAN STEADY PROGRESS

As we discussed in detail at the February hearing, one component of dealing with our accounts receivable inventory is steady, planned, and carefully managed growth in Collection staffing. The President's FY 1991 budget supported an increase of 1,050 additional Collection staff years as part of our long-term effort to address accounts receivable. We are pleased with the support of the Administration and Congressional committees, and with the present consensus that IRS can be part of the solution to our deficit woes. We are particularly gratified with the support of this Committee in that regard.

## THE LONG-TERM HEALTH OF THE TAX SYSTEM

In addition to continued investments in IRS' budget, there are two other areas to be considered when discussing the health of the system: systems modernization and simplification. As you know, Mr. Chairman, our information systems are 30 years behind the times. Our highest long-term priority, and the key to the future of tax administration, is modernizing our computer and telecommunications systems. The administration and Congress have supported this effort, and the President's budget fully funds the FY 1991 increment of this all-important program.

Tax systems modernization will change every aspect of the way we do business -- including our collection activities. For example:

-- Our On-Line Entity system will verify certain return information as soon as it is processed. This will improve the accuracy of taxpayer identification information -- including the Employer Identification Numbers of federal agencies -- before posting to the taxpayer's account. We have also linked the On-Line Entity system with the FTD system; the net result will be a dramatic reduction in erroneous notices and in incorrect FTDs. This will save the IRS and taxpayers both time and money that currently goes to resolving errors by all concerned, reducing the burden on our citizens and allowing us to devote more of our resources to truly delinquent accounts. The first phases of this effort became operational earlier this year; it will be fully implemented during the next two and one-half years.

-- Our connectivity project will provide IRS employees with access to the latest and most accurate account data, information which is not now available on our Automated Collection System terminals. This will enable us to resolve taxpayer inquiries and settle accounts faster. It will also provide our field personnel with more timely information to determine appropriate collection action. This effort has been pilot tested in several districts and will be implemented throughout the country later this fiscal year.

-- Our enforcement management information system, for the first time, will track our enforcement efforts from beginning to end. As such, it will go a long way towards breaking down the functional barriers that have long separated our various enforcement functions. Of particular relevance in the context of today's hearing, we will finally be able to assess the impact of our Examination, Criminal Investigation, Administrative Appeals and Litigation efforts in terms of dollars actually collected -- money in the bank. This system was being implemented on a trial basis this past summer, and is building our operational data base in FY 1991.

-- Our revenue accounting system will provide an on-line, real-time accounting control and management information system. For the first time, we will be able to provide and analyze information that is essential to improved management strategies for addressing the root causes of the growth of our accounts receivable inventory. Interim enhancements have been implemented during the past twelve months, and over the next three years will include the electronic transfer of account data. Other long-term improvements will be implemented over the next eight years.

Our Integrated Collection System is a major step toward Collection systems modernization. It will allow all Collection staff to access taxpayer account information and management information through computer terminals located in district offices throughout the country. Currently, the access to this information is provided indirectly through the service centers. Also, this system will automate time consuming paper intensive transfers of data among incompatible computer systems. This will permit our staff to spend more time on collection activities.

Equally vital is the need to simplify our laws, regulations, and administrative procedures. We believe that a significant portion of our accounts receivable inventory reflects erroneous assessments -- money not owed the federal government. Mistakes by taxpayers and the IRS are both to blame. Unfortunately, many of these errors are caused by our complex and convoluted payroll tax deposit rules.

The federal tax deposit system for employment taxes is a prime example of how complexity leads to compliance problems and an inflated accounts receivable inventory. As many as a third of the nation's employers are assessed penalties annually for failure to make timely deposits of withheld income and social security taxes. Many of these employers are subject to penalties simply because they do not understand when, or how frequently, their deposits are due. The system is so complex that a single employer may have to modify deposit dates from month to month, depending upon the amount of the payroll and how often paydays occur. Once a taxpayer misses a due date or payments are credited to the wrong corporate account, future deposits may be misapplied as well. As I have indicated, these problems are sorely compounded by our outmoded computer systems.

Meaningful simplification in this area would improve compliance, prevent erroneous assessments form bloating our accounts receivable inventory, and generate significant cost savings to taxpayers and the IRS alike. I want to emphasize that there are no obvious solutions at hand, and that any such simplification would have to be revenue neutral.

## IRS INITIATIVES ON ACCOUNTS RECEIVABLE

At the February hearing on accounts receivable, I noted that we were focusing on four "vital few" management initiatives (management information systems, large dollar accounts, currently not collectible accounts, and processing systems) and setting our priorities accordingly. We have since added a fifth area, data file clean-up. Comprehensive action plans are in place for each of these areas, and we are monitoring progress closely.

Before turning to these matters, however, I would like to briefly mention a few tangible signs of the progress we are making: average dollars collected per staff year are increasing, average assessments per staff year in our nonfiler program are increasing, total dollars collected through our various collection initiatives will increase, and the rate of growth in our accounts receivable is expected to decline.

| | FY 1988 | FY 1989 | FY 1990 |
|---|---|---|---|
| Dollars collected on delinquent accounts per staff year ($ in thousands) | $388 | $433 | $471<br>(through 8/90) |
| Dollars assessed in nonfiler program per staff year ($ in thousands) | $195 | $270 | $366<br>(through 8/90) |
| Dollars collected ($ in billions) | $23.3 | $23.5 | $25.8<br>(estimated - 9/90) |
| Percentage growth, unadjusted accounts receivable inventory. | 9.9% | 12.8% | 8.6%<br>(estimated - 9/90) |

These results are attributable to a wide variety of factors, including some that will be negative in the long run (most notably, the recent IRS hiring freeze means we are still working fewer, higher dollar cases). Nonetheless, I believe they suggest that we are making progress.

I would now like to briefly review for you the accomplishments we've made recently in the "vital few" areas.

- MANAGEMENT INFORMATION SYSTEMS: We have made progress in developing management information regarding our large dollar receivables. We also have efforts underway to track the age of receivables and correlate this with their current status, track new receivables and identify the causes of the receivables (e.g., examination assessments, math errors, etc.). In addition, during FY 1991 we plan to implement interim systems to provide better management information and track the status of these accounts. This will help us better understand the causes of the growth of accounts receivable.

- CURRENTLY NOT COLLECTIBLE (CNC) ACCOUNTS: There has been a slow but steady increase in the amount of currently not collectible (CNC) accounts, and the share of our inventory represented by these accounts. There is a cumulative effect on our currently not collectible accounts because they remain on our books, accruing interest and penalties, until the collection statute expires. In addition, certain of our enforcement activities, such as our non-filer and war on drugs efforts, are more likely to generate CNC accounts. When all is said and done, the fact that our CNC accounts inventory exceeds $27 billion is an obvious cause for concern. We are conducting a comprehensive review of this area to identify corrective actions that need to be taken. Most of these cases are uncollectible because an individual or corporate taxpayer may be in bankruptcy, unable to pay or cannot be located. These accounts are not actively worked, but are monitored for changes that would make them collectible. In addition, they are still subject to refund offsets. On occasion, therefore, portions of these CNC accounts are collected.

  These factors suggest that we must examine our current collection procedures and measures. In particular, we must address the root causes for the growth in these accounts, and find alternative ways to attack the problem. Matters we are considering include our withholding and payroll tax laws, and how we administer those rules; the earlier identification of marginal business taxpayers who are delinquent in paying their taxes; and the focus and timing of our enforcement efforts that give rise to accounts receivable. Also, as I've said before, we must develop information systems that will facilitate this type of analysis. The task force responsible for this effort has been at work since March of 1990. They anticipate completing their efforts and presenting us with a report and recommendations shortly. The task force has indicated the need for changes in enforcement patterns to assure that business accounts are resolved before it is necessary to assert the 100% penalty.

Also, in our recognition that accounts receivable are not just a collection problem, a cross-functional group -- consisting of Criminal Investigation, Collection and Examination -- is studying the effect on accounts receivable of the kinds of cases we examine, and the likelihood of examination assessments being collected, especially for large dollar accounts. They will be presenting their findings later in the fall.

- DATA FILE CLEAN-UP: A number of initiatives are underway to review our existing data files, to identify and correct errors and problems by taxpayers and the IRS that have resulted in erroneous assessments or have impeded our ability to collect monies owed to the federal government. As a starting point, three service centers are now examining 18,000 cases to identify, review and resolve incorrect account entries. These taxpayer and IRS errors include incorrect coding of taxpayer information, misidentification of the time period for the receivable, the miscrediting of payments, and the use of multiple taxpayer identification numbers. We anticipate that the results of this effort will help guide us in performing a more comprehensive clean-up of our accounts receivable data files nationwide.

  In this regard, I should emphasize that, while the clean-up itself is of great importance, our primary focus is on identifying the underlying causes and preventing the reaccumulation of erroneous inventories in the years ahead. The initial 18,000 case phase will be completed by December. After studying the results of that effort, we intend to propose a schedule for the comprehensive clean-up of our data files.

- PROCESSING SYSTEMS: As you know, many of our basic processing systems are now highly decentralized. We plan to test an approach which focuses on centralizing essential information from handling of notice review processing, large dollar notices, older accounts involving bankruptcies and litigation, and installment agreements. We anticipate that this effort will bring to light various systemic and procedural deficiencies in how we deal with accounts receivable. It should also allow us to more quickly focus our attention on significant matters, resulting in more efficient and effective use of our resources. A pilot test is about to begin to address these areas. We anticipate that it will be completed over the next twelve months, at which time we will prepare and implement an action plan in response to our findings.

## ANALYSIS OF LARGE CASES

As of the end of August, we had approximately 13 million accounts in our total accounts receivable inventory, reflecting some $69.8 billion in assessed tax, interest and penalties. About 3,400 of these accounts were $1 million and over, with an aggregate dollar total of over $14.5 billion. Stated differently, less than one-fourth of one percent of our accounts involved more than twenty percent of our assessed liabilities. Moreover, included within the small universe of accounts over $1 million were 13 accounts of at least $50 million each with an aggregate total of $2.7 billion. We are looking closely at problems affecting these large corporate and individual accounts. These cases are frequently complicated by parent-subsidiary structures, credit transfer issues, bankruptcies, litigation and on occasion drug dealers and other fugitives from justice. Often, when we unscramble or work the cases all the way through, a sizable portion of the dollars may not be due and owing because of taxpayer or IRS errors.

At the same time, however, it is clear that we must monitor these accounts with greater attention and with aggressive collection actions where appropriate. We have started down that road, and I believe we are making progress. We developed an automated system to provide large dollar trend records, improve our procedures for handling large cases, and provide better data to monitor these accounts.

In July of last year, we began sending semi-annual information on large dollar accounts of $1 million and over to our field offices. At the same time, they have developed locally tailored systems to better manage this inventory, and updated information is available from them on a weekly basis. In addition, we have established specific overall goals and objectives in our FY 1991 Strategic Business Plan that can be monitored by all concerned, including others in the Administration and the Congress.

Procedures for handling accounts involving $1 million or more were put into place in March of this year. These efforts will greatly improve our monitoring capabilities and will help assure that a continuing high priority is placed on resolving large dollar accounts and will provide for accountability in our performance. Of equal importance, our reviews will be identifying systemic problems and the need for procedural changes so that subsequent problems can be prevented.

Special handling procedures also have been established for receivables with an aggregate balance of $10 million or more. For example, obvious IRS and taxpayer errors that have triggered erroneous assessments must be resolved within 30 days. For all other large dollar assessments, a comprehensive action plan to protect the government's interest and optimize collection must be developed by the field within 90 days, with information copies provided to the National Office for all accounts $50 million and over.

Attached to my testimony is a chart showing the evolution of large dollar cases that illustrates the progress we are making in this area. In June of this year, we had 21 cases over $50 million in inventory, with a total balance due of $3.9 billion. At the end of September, there were 17 cases in inventory, with a total balance due of $3.2 billion, of the 13 cases that were not closed between June and September: six cases totaling $1.7 billion are in bankruptcy; two cases totalling $284 million are in the process of being adjusted; one case for $61 million is in litigation awaiting court decision; one case of $73 million involves a drug dealer and collection is being enforced against available assets; one case totaling $250 million is in the appeals process; one case of $121 million that for a variety of reasons it appears unlikely will ever be collected; and one case totaling $262 million is an estate tax account where the estate has elected the installment payment privilege. Of the four open cases that entered our inventory after June of this year, three are being closed out as erroneous assessment adjustments and one is pending in litigation.

All of these accounts are being resolved. The bankruptcy cases are being monitored, or are reaching settlement, but IRS action is on hold pending appropriate court action. Of the bankruptcy cases, it is probable that we will only collect a small portion of the total tax we are owed. Nine of the seventeen cases involve taxes for assessments made during the past two years. The three cases involving litigation over the windfall profits tax will not be difficult to collect if the courts rule in our favor.

FEDERAL AGENCY COMPLIANCE

In their capacity as employers, federal agencies are covered by the same employment tax rules and regulations as private-sector employers. These include filing quarterly Forms 941, "Employer's Quarterly Tax Return", withholding and paying over to IRS taxes due, withholding FICA taxes on employees covered by the FERS system, and so on. I have attached to this statement a chart and summary narrative explaining the process currently used by federal agencies to meet their tax obligations. As we look at federal agency compliance, it is important to keep in mind the large number of deposits and the total dollars actually paid. Each year, federal agencies make well over 40,000 payments totalling some $7 billion. Our conclusion, after examining federal agency compliance, is that virtually all federal agencies pay the taxes they owe timely, and, in that regard, do not represent a revenue or compliance problem for the Service.

This is not to say there are no problems. However, when we work federal agency cases, virtually all agencies with apparent liabilities do not really have liabilities. Most of these agencies have credits somewhere else in the system, or there has been an accounting error somewhere -- by the agency, the Financial Management Service, or by IRS -- that creates the appearance of a liability. Once the records are analyzed and corrected, the liability is usually eliminated. There are a few exceptions, of course, but these are rare.

In March, we provided the GAO with a listing of 676 federal accounts showing a balance due in our records of $185 million. virtually all of these accounts involve accounting or posting errors by the agency, by the Financial Management Service, or by the IRS which caused tax deposits to be credited improperly. In almost no cases do agencies actually owe money to the IRS.

By the end of August, we had completely resolved 39% of the accounts and partially resolved another 11%, for a total of 50% of the cases. The cases we resolved represented 80% of the total dollars due. During that period we received 452 new accounts. We currently have 1,301 federal agency accounts in our inventory showing balances due totaling $152 million. Attached to this testimony is a chart showing the current account status of 63 selected federal agencies reviewed by GAO.

We are just completing a review of federal agency employment tax compliance which confirms that, while agencies may not ultimately owe additional amounts, there are problems. A few agencies have a history of filing late, a very few pay late, but many, in every branch of the government, including IRS and GAO, make mistakes when they send in payments and indicate which accounts should be credited. Mistakes also are made by IRS and other agencies in the process of crediting payments for federal accounts. In the last three years, we reviewed a number of domestic and overseas agencies, met with agency officials, and reviewed their tax procedures at their headquarters and field offices. With minimal exceptions, we believe agencies are depositing their taxes timely, but we have found problems with agencies filing their returns on time. We also found some areas of confusion, particularly with the status of contract employees overseas, but the agencies have been very cooperative in correcting their procedures when we have identified a problem. I should add, Mr. Chairman, that we feel this late filing issue is a valid concern because of the enormous resources involved in finding and fixing the problems.

As we noted, many of the problems with federal agency accounts are caused by the same types of errors that occur with private employers. As a result of our review of federal agencies and our own situation, we have taken steps to improve the process and eliminate some current barriers. For example, we found that instructions in the Treasury Financial Manual, which is issued by the Financial Management Service (FMS), did not completely address some of the situations encountered by agencies, particularly those with overseas payroll. We have forwarded to Treasury revisions to the Manual that we believe will clarify filing, depositing and payment requirements. We are also cooperating with the Financial Management Service in the development of a new system permitting electronic deposits of taxes by federal agencies, which will eliminate the problems created by the mishandling of FTD coupons and related documents.

We have also undertaken taxpayer education efforts. For example, our international staff now schedules meetings with federal agencies' overseas staffs during their taxpayer service visits to foreign countries with large federal installations. We are also evaluating other recommendations of the review team that deal with how we process these accounts.

## CONCLUSION

I believe the Service has made visible progress in the last six months in addressing accounts receivable issues. Additionally, we have initiated several efforts to focus agencies' attention on this area. However, much still remains to be done, and there are no quick fixes. We do not accept the late filing of employment tax returns by federal agencies as a "given", and in fact believe it is a terrible waste of both IRS and agency resources to have to find and then re-work errors.

The initiatives I have discussed here will significantly improve the way IRS deals with accounts receivable, but they do involve complicated processing and information systems, as well as coordination with offices across the country, and therefore will take time. We believe the time and effort invested here are worthwhile, and we are committed to improving our overall performance in this area.

My colleagues and I will be pleased to answer any questions you or the Members may have.

## $50 MILLION AND OVER ACCOUNTS, STATUS OF ORIGINAL 21 TAXPAYERS

|  | NAME | Amount | Assessment Date | Status As Of 9/30/90 | Basis/Reason |
|---|---|---|---|---|---|
| 1. | Corporation | $ 77 million | 05/11/90 | Closed | Case caused by misapplied payments due to IRS errors. Payments then applied to proper accounts. |
| 2. | Corporation | $ 51 million | 12/04/89 | Closed | Erroneous SC Assessment on Form 926, Transfer of Overseas Property. Misinterpreted return. Tax abated. |
| 3. | Corporation | $630 million | 06/25/90 | Closed | Erroneous CAWR Assessment subsequently abated. |
| 4. | Corporation | $133 million | 06/19/90 | Closed | Erroneous Math Error Assessment subsequently abated. |
| 5. | State | $ 62 million | 06/11/90 | Closed | This case was generated in error due to the processing of a copy of the original tax return. This copy unposted and was later deleted. No Notices were generated. |
| 6. | Corporation | $ 72 million | 03/19/90 | Closed | Exam Assessment - Credits applied to amount. Part of a bankruptcy where money was in escrow and applied to the account. |
| 7. | Corporation | $106 million | 06/25/90 | Closed | Exam assessment, account full paid on 7/20/90. |
| 8 | Corporation | $ 76 million | 10/02/89 | Closed | Erroneous assessment of original return abated. SC processing error. |
| 9. | Corporation | $229 million | 07/19/88 | Open | Exam Assessment - Corp. liquidated in bankruptcy. To be reported uncollectible. |
| 10. | Estate | $262 million | 03/30/90 | Open | Estate applied for and granted special 15 year installment method of payment. Final installment due 2004. |
| 11. | Individual | $ 61 million | 03/13/89 | Open | Exam deficiency. Tax Shelter case. Related corporate records held by D.O.J. for criminal investigation. IRS Counsel awaiting release of records for review and possible settlement with taxpayer. |
| 12. | Corporation | $250 million | 01/24/84 | Open | Exam assessments over several years involve agreed & unagreed issues. Disagreed assessments for 78-80 coordinating through Appeals. TP entered into security agreement for full balance of tax due. |

| | NAME | Amount | Assessment Date | Status As Of 9/30/90 | Basis/Reason |
|---|---|---|---|---|---|
| 13. | Individual | $ 73 million | 06/04/90 | Open | Jeopardy assessments due to drug trafficking currently in active collection status. Leins, levies and seizures presently being conducted. |
| 14. | Individual | $121 million | 12/08/77 | Open | Exam deficiencies for multiple years resulting from Criminal Investigation. Taxes determined to be currently not collectible. Case open pending posting of closing transactions. |
| 15. | Corporation | $265 million | 12/19/84 | Open | Exam Assessment - Bankruptcy filed Will receive small settlement & balance to be abated. |
| 16. | Corporation | $119 million | 12/03/83 | Open | WPT adjustments properly assessed by Exam. Claims being made by TP based generally on subsequent quarterly activity. Status open pending resolution of adjustments. |
| 17. | Individual | $670 million | 09/22/88 | Open | Exam Assessment - Bankruptcy filed |
| 18. | Individual | $294 million | 09/22/88 | Open | Exam Assessment - Bankruptcy filed |
| 19. | Corporation | $165 million | 02/12/90 | Open | WPT adjustments properly assessed by Exam. Claims being made by TP based generally on subsequent quarterly activity. Status open pending resolution of adjustments. |
| 20. | Corporation | $ 90 million | 05/30/85 | Open | Bankruptcy filed Exam assessment reopened will be abated. |
| 21. | Individual | $120 million | 04/12/90 | Open | Bankruptcy filed mid-80's. Partial distribution expected - Balance of accounts will probably be CNC. |
| | | $3.926 million | | | |

| **NAME** | Amount | Assessment Date | Status As Of 9/30/90 | **Basis/Reason** |
|---|---|---|---|---|
| * Corporation | $ 56 million | 09/24/90 | Open | **Incorrect W-2 non-filing penalty - systemic error in computing penalty. Notice intercepted. Penalty to be reversed.** |
| * Corporation | $ 56 million | 08/15/90 | Open | **Duplicate return filed. Adjustment being completed to delete duplicate transaction. Resolution expected 10/9/90.** |
| * Corporation | $143 million | 09/10/90 | Open | **Erroneous return Form 1042. Taxpayer error. Amended return expected to close case by 11/1/90.** |
| * Corporation | $167 million | 06/25/82 | Open | WPT adjustments properly assessed by Exam. Claims being made by TP based generally on subsequent quarterly activity. Status open pending resolution of adjustments. |

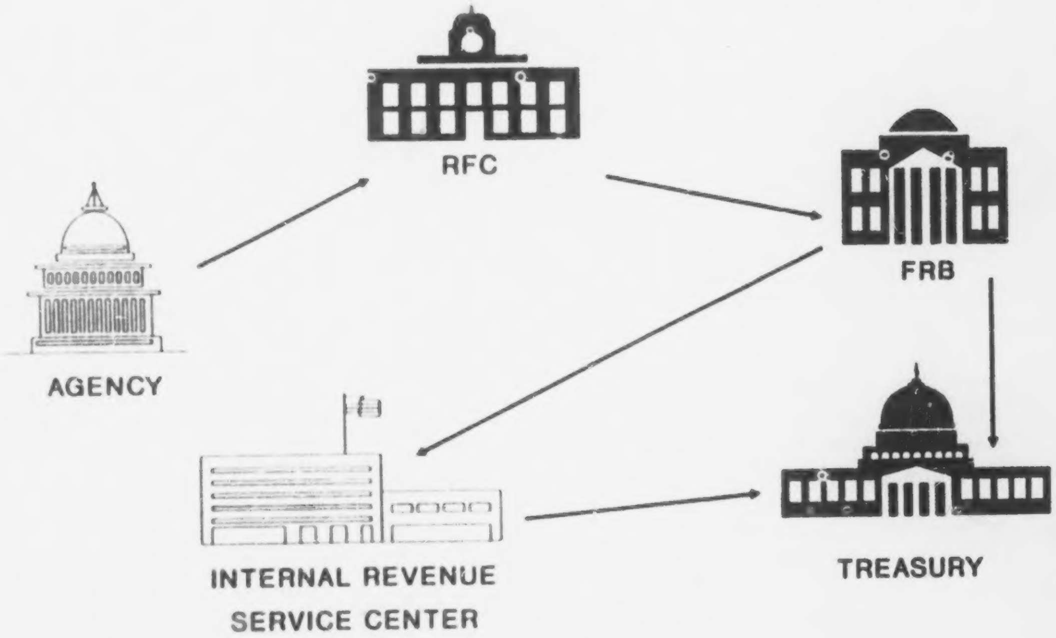
**RESULTS**

| Open | Bankruptcy | Litigation/Appeals | Windfall Profit Tax | Drugs | Other | |
|---|---|---|---|---|---|---|
| 13 | 6 | 2 | 2 | 1 | 2 | TOTAL $2.719 billion |
| | $1.668 billion | $311 million | $284 million | $73 million | $383 million | |

| Closed | Adjustment | Abatement | |
|---|---|---|---|
| 8 | 3 | 5 | TOTAL $1.207 billion |
| | $255 million | $952 million | |

* New cases added to inventory are not included in the results above.

# FEDERAL AGENCY FEDERAL TAX DEPOSITS



RFC--Regional Financial Center
Financial Management Service
Department of the Treasury

FRB--Federal Reserve Bank

# FEDERAL AGENCY TAX DEPOSITS

- AGENCY MAILS COUPON AND FORM TO RFC
- RFC PREPARES CHECK
- RFC MAILS CHECK AND COUPON TO FRB
- FRB PREPARES ADVICE OF CREDIT AND CREDITS THE ADVICE OF CREDIT TOTAL INTO THE TT&L ACCOUNT
- FRB SENDS ADVICE OF CREDIT AND COUPONS TO IRS
- IRS REPORTS TRUST FUND CLASSIFICATION TO TREASURY

Selected Federal Agency Balance Due Accounts (Credit Balance Accounts on the same agencies not shown)

| NO. | AGENCY | Account | TAX PERIOD | BALANCE as of 2-20-90 | Current Balance | METHOD OF RESOLUTION |
|---|---|---|---|---|---|---|
| 1 | Defense | U.S. Naval Shipyard, Portsmouth, NH | 8812 | $282,050 | $0 | Applied FTDs misapplied by FRB |
| | | U.S. Naval Shipyard, Portsmouth, NH | 8909 | $2,181,130 | | |
| 2 | Defense | Dept. of Army, Ft. Drum, NY | 8712 | $0 | $0 | Applied FTDs previously misapplied |
| | | Dept. of Army, Ft. Drum, NY | 8909 | $453,511 | | |
| 3 | Defense | Finance Acctg. Off., Ft. Dix, NJ | 8309 | $558,095 | | |
| | | Finance Acctg. Off., Ft. Dix, NJ | 8403 | $11 | | |
| | | Finance Acctg. Off., Ft. Dix, NJ | 8512 | $1,029 | | |
| | | Finance Acctg. Off., Ft. Dix, NJ | 8912 | $0 | $559,135 | |
| 4 | Defense | Hqtrs U.S. Army Comm., Ft. Monmouth, NJ | 8803 | $111,990 | $0 | |
| 5 | Defense | Dept. of Army, Dover, NJ | 8503 | $179,741 | | |
| | | Dept. of Army, Dover, NJ | 8409 | $714 | | |
| | | Dept. of Army, Dover, NJ | 8512 | $12 | | |
| | | Dept. of Army, Dover, NJ | 8612 | $0 | | |
| | | Dept. of Army, Dover, NJ | 8709 | $581 | | |
| | | Dept. of Army, Dover, NJ | 8712 | $919 | | |
| | | Dept. of Army, Dover, NJ | 8806 | $827 | | |
| | | Dept. of Army, Dover, NJ | 8809 | $253 | | |
| | | Dept. of Army, Dover, NJ | 8909 | $921 | | |
| | | Dept. of Army, Dover, NJ | 8912 | $0 | $183,968 | |
| 6 | Defense | DLA Finance Ctr., Columbus, OH | 8912 | $191,273 | | |
| | | DLA Finance Ctr., Columbus, OH | 8903 | $0 | | |
| | | DLA Finance Ctr., Columbus, OH | 8906 | $97,711 | $288,984 | |

|  |  |  |  |  |  |  |
|---|---|---|---|---|---|---|
| 7 | Defense | Navy Finance Ctr., Cleveland, OH | 8803 | $615,829 |  | Corrected improperly filed returns and FTDs |
|  |  | Navy Finance Ctr., Cleveland, OH | 8806 | $990,534 |  |  |
|  |  | Navy Finance Ctr., Cleveland, OH | 8809 | $1,089,122 |  |  |
|  |  | Navy Finance Ctr., Cleveland, OH | 8812 | $8,129 |  |  |
|  |  | Navy Finance Ctr., Cleveland, OH | 8903 | $0 |  |  |
|  |  | Navy Finance Ctr., Cleveland, OH | 8906 | $0 |  |  |
|  |  | Navy Finance Ctr., Cleveland, OH | 8909 | $0 | $0 |  |
| 8 | Defense | Military Retired Pay, Indianapolis, IN | 8912 | $51,791,597 | $0 | Applied FTD applied to wrong EIN |
| 9 | Defense | Army-Civilian Pay, Aberdeen, MD | 8909 | $2,872,205 | $0 | Corrected taxpayer error on return |
|  |  | Army-Civilian Pay, Aberdeen, MD | 8706 | $44 |  |  |
| 10 | Defense | Naval Surface Warfare Ctr., Dahlgren, VA | 8909 | $1,616,135 | $1,616,135 |  |
|  |  | Naval Surface Warfare Ctr., Dahlgren, VA | 8912 | $0 |  |  |
| 11 | Defense | US Prop. & Fiscal Off., Hav de Grace, MD | 8512 | $915,525 |  |  |
|  |  | US Prop. & Fiscal Off., Hav de Grace, MD | 8412 | $1,194 |  |  |
|  |  | US Prop. & Fiscal Off., Hav de Grace, MD | 8506 | $3,678 |  |  |
|  |  | US Prop. & Fiscal Off., Hav de Grace, MD | 8612 | $2,121 |  |  |
|  |  | US Prop. & Fiscal Off., Hav de Grace, MD | 8709 | $1,439 |  |  |
|  |  | US Prop. & Fiscal Off., Hav de Grace, MD | 8712 | $4,872 | $964,831 |  |
| 12 | Defense | Dept. of Army Finance Ctr. APO, New York | 8403 | $165,278 | $165,278 |  |
| 13 | Defense | Army Finance Acct/Walter Reed, Wash. D.C. | 8806 | $262,639 |  |  |
|  |  | Army Finance Acct/Walter Reed, Wash. D.C. | 8712 | $18,601 |  |  |
|  |  | Army Finance Acct/Walter Reed, Wash. D.C. | 8812 | $16,520 | $297,760 |  |
| 14 | Defense | USAF, Bolling AFB, Washington, D.C. | 8812 | $4,265,374 |  |  |
|  |  | USAF, Bolling AFB, Washington, D.C. | 8912 | $14,146,320 |  |  |
|  |  | USAF, Bolling AFB, Washington, D.C. | 8803 | $33 |  |  |
|  |  | USAF, Bolling AFB, Washington, D.C. | 8903 | $2,816 | $18,414,543 |  |
| 15 | Defense | Army & Air Force/Anacostia NAS, Wash, DC | 8906 | $199,794 | $0 | Merged multiple EINs |

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|---|---|---|---|---|---|---|
| 16 | Defense | U.S. Marine Corps, Quantico, VA | 8612 | $118,014 | $0 | Resolved erroneous CAWR assessment |
| 17 | Defense | US Navy, Naval Weapons Sta, Yorktown, VA<br>US Navy, Naval Weapons Sta, Yorktown, VA | 8906<br>8909 | $421,910<br>$442,513 | $0 | Located FTDs taxpayer deposited to wrong EIN |
| 18 | Defense | Army Engineer Ctr., Ft. Belvoir, VA | 8612 | $451,248 | $0 | Resolved erroneous CAWR assessment |
| 19 | Defense | Acct. & Finance Office, Columbus, OH<br>Acct. & Finance Office, Columbus, OH<br>Acct. & Finance Office, Columbus, OH<br>Acct. & Finance Office, Columbus, OH | 8812<br>8612<br>8412<br>8806 | $989,160<br>$0<br>$2,009<br>$187 | $991,356 | |
| 20 | Defense | Marine Corps., Camp Lejeune, NC<br>Marine Corps., Camp Lejeune, NC | 8103<br>8712 | $126,139<br>$1,157 | $127,296 | |
| 21 | Defense | Naval Supply Ctr., Charleston, SC<br>Naval Supply Ctr., Charleston, SC | 8909<br>8612 | $166,947<br>$0 | $166,947 | |
| 22 | Defense | Army Finance/Acct., Ft. Benning, GA<br>Army Finance/Acct., Ft. Benning, GA<br>Army Finance/Acct., Ft. Benning, GA<br>Army Finance/Acct., Ft. Benning, GA<br>Army Finance/Acct., Ft. Benning, GA | 8812<br>8903<br>8512<br>8909<br>8506 | $886,746<br>$5,517,231<br>$0<br>$0<br>$12 | $6,403,989 | |
| 23 | Defense | Marine Corps, Albany, GA | 8906 | $118,379 | $118,379 | |
| 24 | Defense | AF Civil. Acct./Finance, MacDill AFB, FL | 8906 | $310,172 | $0 | Applied FTDs previously misapplied |
| 25 | Defense | US Prop. & Fiscal Office, Montgomery, AL<br>US Prop. & Fiscal Office, Montgomery, AL | 8612<br>8903 | $2,523,158<br>$81,000 | $0 | Applied FTDs misapplied by taxpayer |
| 26 | Defense | Army, Fort Polk, LA | 8612 | $1,444,993 | $0 | Corrected taxpayer error on return |
| 27 | Defense | San Antonio Air Material, Kelly AFB, TX | 8612 | $2,653,467 | $0 | Resolved erroneous CAWR assessment |

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|---|---|---|---|---|---|---|
| 28 | Defense | Army, Yuma Proving Ground, Yuma, AZ | 8912 | $257,213 | $259,786 | |
| | | Army, Yuma Proving Ground, Yuma, AZ | 8612 | $2,573 | | |
| 29 | Defense | Army, Dugway Proving Ground, Duymay, UT | 8909 | $212,506 | $0 | Applied FTD misapplied by taxpayer |
| 30 | Defense | Navy/Civilian Pay, Oakland, CA | 8909 | $1,640,026 | $0 | Corrected taxpayer error on return |
| 31 | Defense | Army, Finance/Acct., Presidio of SF, CA | 8903 | $760,008 | $760,008 | |
| 32 | Defense | Commander, Travis AFB, CA | 8612 | $3,254,104 | $0 | Resolved erroneous CAWR assessments |
| | | Commander, Travis AFB, CA | 8512 | $3,049,927 | | |
| 33 | Defense | Air Force, Vandenberg AFB, CA | 8309 | $502,097 | $551,776 | |
| | | Air Force, Vandenberg AFB, CA | 8312 | $35,322 | | |
| | | Air Force, Vandenberg AFB, CA | 8406 | $382 | | |
| | | Air Force, Vandenberg AFB, CA | 8503 | $10,806 | | |
| | | Air Force, Vandenberg AFB, CA | 8509 | $462 | | |
| | | Air Force, Vandenberg AFB, CA | 8603 | $1,269 | | |
| | | Air Force, Vandenberg AFB, CA | 8712 | $1,386 | | |
| | | Air Force, Vandenberg AFB, CA | 8812 | $52 | | |
| | | Air Force, Vandenberg AFB, CA | | | | |
| 34 | Defense | Navy Exchange, Naval Hosp., San Diego, CA | 8612 | $354,108 | $354,108 | |
| 35 | Defense | Payroll Office, Howard AF, APO Miami, FL | 8606 | $196,671 | $386,785 | |
| | | Payroll Office, Howard AF, APO Miami, FL | 8706 | $190,114 | | |
| 36 | Defense | Civilian Payroll/Air Base, APO, New York | 8603 | $73,077 | $6,189,788 | |
| | | Civilian Payroll/Air Base, APO, New York | 8612 | $369,981 | | |
| | | Civilian Payroll/Air Base, APO, New York | 8703 | $958,941 | | |
| | | Civilian Payroll/Air Base, APO, New York | 8706 | $801,492 | | |
| | | Civilian Payroll/Air Base, APO, New York | 8712 | $1,534,148 | | |
| | | Civilian Payroll/Air Base, APO, New York | 8803 | $889,666 | | |
| | | Civilian Payroll/Air Base, APO, New York | 8806 | $992,617 | | |
| | | Civilian Payroll/Air Base, APO, New York | 8812 | $284,946 | | |
| | | Civilian Payroll/Air Base, APO, New York | 8906 | $354,920 | | |

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|---|---|---|---|---|---|---|
| 37 | Defense | Dept. of Air Force, APO SF, CA | 8712 | $301,137 | | Resolved erroneous CAWR assessment and corrected processing error |
| | | Dept. of Air Force, APO SF, CA | 8112 | $24 | | |
| | | Dept. of Air Force, APO SF, CA | 8412 | $5,660 | | |
| | | Dept. of Air Force, APO SF, CA | 8603 | $1,137 | | |
| | | Dept. of Air Force, APO SF, CA | 8612 | $5,220 | | |
| | | Dept. of Air Force, APO SF, CA | 8912 | $0 | | |
| | | Dept. of Air Force, APO SF, CA | 8812 | $541,995 | $0 | |
| 38 | Defense | Dept. of Air Force, APO, New York | 8812 | $136,937 | | |
| | | Dept. of Air Force, APO, New York | 8312 | $0 | | |
| | | Dept. of Air Force, APO, New York | 8512 | $6 | $136,943 | |
| 39 | Defense | Dept. of Air Force, APO, San Fran., CA | 8509 | $156,357 | | |
| | | Dept. of Air Force, APO, San Fran., CA | 8909 | $0 | $156,357 | |
| 40 | Defense | Army/226th Theater Finance APO, New York | 8709 | $14,522,042 | | Applied FTDs misapplied by taxpayer |
| | | Army/226th Theater Finance APO, New York | 8812 | $7,061,561 | | |
| | | Army/226th Theater Finance APO, New York | 8512 | $2,741 | | |
| | | Army/226th Theater Finance APO, New York | 8612 | $0 | $0 | |
| 41 | Defense | Army/Finance, New York, NY | 8603 | $134,859 | | |
| | | Army/Finance, New York, NY | 8312 | $1,354 | | |
| | | Army/Finance, New York, NY | 8409 | $88 | | |
| | | Army/Finance, New York, NY | 8506 | $9,945 | | |
| | | Army/Finance, New York, NY | 8512 | $3,918 | | |
| | | Army/Finance, New York, NY | 8209 | $46,946 | | |
| | | Army/Finance, New York, NY | 8606 | $560,650 | | |
| | | Army/Finance, New York, NY | 8609 | $620,750 | $1,378,510 | |
| 42 | Defense | Disbursing Office FPO, San Fran., CA | 8412 | $4,988,613 | | |
| | | Disbursing Office FPO, San Fran., CA | 8612 | $122 | $4,988,735 | |
| 43 | Defense | Naval Activities UK FPO, New York | 8406 | $135,025 | | |
| | | Naval Activities UK FPO, New York | 8712 | $53,950 | | |
| | | Naval Activities UK FPO, New York | 8909 | $0 | $188,975 | |

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|---|---|---|---|---|---|---|
| 44 | Defense | Consolid Recreation Fund Agana Guam, MI | 8901 | $188,391 | $266,609 | |
| | | Corsolid Recreation Fund Agana Guam, MI | 8812 | $78,218 | | |
| 45 | Defense | Dept. of Air Force, APO New York | 8612 | $523,147 | $534,736 | |
| | | Dept. of Air Force, APO New York | 8412 | $2,535 | | |
| | | Dept. of Air Force, APO New York | 8712 | $5,393 | | |
| | | Dept. of Air Force, APO New York | 8812 | $2,634 | | |
| | | Dept. of Air Force, APO New York | 8903 | $1,027 | | |
| 46 | Defense | Dept. of Navy, Spain, US Naval Sta. NY | 8709 | $465,959 | $0 | Corrected duplicate assessment |
| | | Dept. of Navy, Spain, US Naval Sta. NY | 8812 | $499,205 | | |
| 47 | Defense | Dept. of Air Force, APO, San Fran. CA | 8612 | $1,024,040 | $1,143,829 | |
| | | Dept. of Air Force, APO, San Fran. CA | 8706 | $119,789 | | |
| | | Dept. of Air Force, APO, San Fran. CA | 8509 | $0 | | |
| | | Dept. of Air Force, APO, San Fran. CA | 8106 | $0 | | |
| 48 | Defense | US Naval Air Engineering Ctr. NJ | 8803 | $778,802 | $1,586,806 | |
| | | US Naval Air Engineering Ctr. NJ | 8806 | $808,004 | | |
| | | | | | TOTAL:$49,182,462 | |
| 49 | State | Regional Finance Mangt. Ctr., APO, NY | 8901 | $132,362 | $0 | Applied FTDs misapplied by taxpayer |
| | | Regional Finance Mangt. Ctr., APO, NY | 8603 | $150 | | |
| 50 | State | Dept. of State, Arlington VA | 8612 | $2,393,503 | $2,438,700 | |
| | | Dept. of State, Arlington VA | 8512 | $4,330 | | |
| | | Dept. of State, Arlington VA | 8712 | $40,867 | | |
| 51 | State | American Embassy Bangk APO San Fran. CA | 8409 | $398,728 | $403,516 | |
| | | American Embassy Bangk APO San Fran. CA | 8406 | $4,497 | | |
| | | American Embassy Bangk APO San Fran. CA | 8806 | $291 | | |
| | | | | | TOTAL:<br>$2,842,216 | |

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|---|---|---|---|---|---|---|
| 52 | AID | Agency for Int'l Dev./State Dept, D.C. | 8709 | $8,320,121 | $0 | Applied FTDs misapplied by taxpayer |
| 53 | AID | Agency for Int'l Dev./State Dept, D.C. | 8709 | $1,586,116 | $0 | Applied FTDs misapplied by taxpayer |
| | | Agency for Int'l Dev./State Dept, D.C. | 8809 | $1,423,394 | | |
| 54 | AID | U.S.AID El Salvador, APO, Miami | 8909 | $184,770 | | |
| | | U.S.AID El Salvador, APO, Miami | 8903 | $22,339 | | |
| | | U.S.AID El Salvador, APO, Miami | 8912 | $0 | | |
| | | U.S.AID El Salvador, APO, Miami | 8803 | $6,385 | $213,494 | |
| | | | | | TOTAL: $213,494 | |
| 55 | Commerce | Census Bureau, N.Y. NY | 8909 | $127,604 | | |
| | | Census Bureau, N.Y. NY | 8412 | $1,421 | | |
| | | | | | $129,025 | |
| 56 | Commerce | Caller Service, Germantown | 8112 | $4,580,583 | | |
| | | Caller Service, Germantown | 8409 | $323,844 | $4,904,427 | |
| | | | | | TOTAL: $5,033,452 | |
| 57 | EPA | Environmental Protection Agency, D.C. | 8712 | $129,668 | | Agency repaid amount refunded to agency from another period |
| | | Environmental Protection Agency, D.C. | 8803 | $91,152 | | |
| | | Environmental Protection Agency, D.C. | 8806 | $59,517 | | |
| | | Environmental Protection Agency, D.C. | 8903 | $2,969 | $0 | |
| 58 | Education | U.S. Dept. of Education, D.C. | 8503 | $1,408,005 | $1,408,005 | |
| 59 | Justice | Federal Bureau of Investigations, D.C. | 8909 | $2,838,726 | | |
| | | Federal Bureau of Investigations, D.C. | 8912 | $0 | $2,838,726 | |
| 60 | USIA | US Information Agency, D.C. | 8809 | $1,410,627 | $0 | Taxpayer repaid checks not cleared by FRB |
| 61 | Agricult. | US Dept. of Agriculture, New Orleans | 8812 | $138,674 | $0 | Corrected FTDs applied to wrong EIN |
| | | US Dept. of Agriculture, New Orleans | 8712 | $0 | | |

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|---|---|---|---|---|---|---|
| 62 | Labor | Dept. of Labor, Washington, D.C. | 8806 | $227,126 | | Applied FTDs from another module. Abated erroneous assessment. |
| | | Dept. of Labor, Washington, D.C. | 8612 | $73,547 | | |
| | | Dept. of Labor, Washington, D.C. | 8706 | $42,424 | | |
| | | Dept. of Labor, Washington, D.C. | 8903 | $593 | | |
| | | Dept. of Labor, Washington, D.C. | 8909 | $3,484 | $0 | |
| 63 | No Waiver | U.S. Territory/Possession | 8703 | $165,764 | | |
| | | U.S. Territory/Possession | 8706 | $1,823 | | |
| | | U.S. Territory/Possession | 8406 | $410 | | |
| | | U.S. Territory/Possession | 8903 | $3,603 | | |
| | | U.S. Territory/Possession | 8906 | $1,010 | | |
| | | U.S. Territory/Possession | 8912 | $0 | $172,610 | |
| | | | | | **TOTAL:**<br>$ 61,690,965 | |

## EXPLANATION OF SYMBOLS

| | |
|---|---|
| FTD/FTDs | Federal Tax Deposit(s) |
| EIN/EINs | Employer Identification Numbers(s) |
| CAWR | Combined Annual Wage Reporting program |
| DOJ | Department of Justice |
| TP | Taxpayer |
| CNC | Currently Not Collectible |

Chairman **Pickle**. Thank you, Commissioner.

Commissioner, I want to understand the difficulty that your agency faces with Federal agencies' accounts and to understand that a lot of these figures represent erroneous assessments and not cash. That it is the system we are using, a system that you report to us is not being understood by the public either. I want to accept the fact that a lot of it is bookkeeping adjustment errors, but the cold fact of the matter is that, with respect to the Federal agencies alone, from February to August of 1990, the Internal Revenue Service collected $4.3 million in late payments from the six agencies that we described.

Now, that wasn't all errors. That is cold cash. It seems to me that when the spotlight was turned on you, you went to work and collected that money. Is that not an accurate statement?

Mr. **Goldberg**. Mr. Chairman, I think if one agency of this Federal Government is a week late in paying one dollar of its taxes, that is unacceptable. I think it is important to look at that $4.1 million. If you look at it, the $1.4 million that we collected from the USIA was a liability that arose in the first place because Treasury mistakenly canceled the check.

Chairman **Pickle**. But Mr. Goldberg——

Mr. **Goldberg**. I am not trying to justify this, Mr. Chairman. I think even in this $4 million, that $1.4 million resulted from a mistake, if we had not erroneously canceled the check it wouldn't have been owed. Somebody screwed up.

Chairman **Pickle**. Here is the State Department. The State Department paid $44,000 for years 1985, 1986 and 1987 in June 1990. In other words, these things go back 3 and 4 years. How do you explain that?

Mr. **Goldberg**. Mr. Chairman, I don't want to try to explain any of that away.

Mr. **Keenan**. I could try to explain it away, but with difficulty certainly. The issues we encounter are still in the area of errors and carelessness as opposed to the management of an agency making a decision not to pay their payroll taxes.

Even where we do collect money, the first case that Paul mentioned where there were payments made recently in 1990, but I have some information that there is some $2 million of that was correcting errors made as these payments went through the Federal Reserve banking process.

I think we have to separate an issue of our Federal agencies making decisions not to make tax payments because they don't have the money or they want to use the money some other way, or we have a complex processing system that isn't being managed well?

I think it is on the side of a complex processing system that isn't being managed well. I think we need to improve the processing system.

I think both the Internal Revenue Service and these other agencies need to make some changes.

Chairman **Pickle**. I think you are right about it.

We have got to admit all the agencies have to do a better job. I have a feeling that with many of these kinds of returns from agencies that the Internal Revenue Service primarily just wound their watch and just went ahead and did business as usual. We have got to do a better job. Maybe that means revising the system.

To say we can't do a better job is almost like trying to argue the obvious contradiction. I think we have got to do a better job.

I want to recognize some other members.

Mr. Goldberg, you have listed on page 6, six different things you are trying to do. Maybe we have been trying to do this all along or have been doing this all along.

It seems to me like we have always had difficulty with accounts receivable and you have never really had a plan.

You have never really come to us and said we are going to do six things and try to keep you and the Appropriations Committee up to date. We have asked for a plan and we never really have gotten it. This is a good, concrete outline for me, at least you have got a specific plan out there.

It is not right to keep saying that we are outgunned by personnel, we need new computers, our front-end processors are out of date. These things are no longer acceptable. That can'y be it.

You can't say we are going to take care of these figures by just abating them because they are bookkeeping errors.

Years ago I was trying to cover my particular district. I was working with the then Congressman Lyndon Johnson. I was sent into one county judge's office. He was a postmaster.

He was months and months behind on filling out records. The department was about to get his job. They were just about to explode on him. He said he was going to get around to it.

The last day he went out of the office, he called me and said come down since you have been worrying me about these reports. I went down. He called for a great big old waste paper basket and said watch me, and he took all the papers and just raked it off in that hamper.

He took care of it. I am not saying to you rake them all off. To say we are going to write them off is not acceptable.

The fact of the matter is that we have to do a better job than we have been doing.

Let me yield to Mr. McGrath.

Mr. McGRATH. Let me ask unanimous consent to insert into the record an opening statement?

Mr. PICKLE. Yes, so granted.

[The statement of Mr. McGrath follows:]

## Opening Statement of the Honorable Raymond J. McGrath For the Oversight Subcommittee Hearing On IRS Accounts Receivable

October 18, 1990

Mr. Chairman, I am pleased to join you in opening our second hearing this year on the accounts receivable of the IRS.

On February 20 this Subcommittee examined the overall status of IRS accounts receivable. We found that the accounts receivable have grown to almost $90 billion. These are amounts which have been assessed by the IRS but not yet collected. Every dollar of the accounts receivable inventory we collect is one less dollar we need to offset by reduced spending or new revenues.

Today we will zero-in on two special parts of the accounts receivable issue. First, the Subcommittee will examine the accounts receivable slippage caused by federal agencies which make late payments of payroll withholding to the IRS. In February this year, federal agencies were $185 million behind in payments to the IRS.

Federal agencies should set the example for compliance with federal laws. But the sorry fact is that some federal agencies are chronically tardy in meeting the deposit schedule for payroll withholding.

The truant agencies are not penalized for late payments to the IRS. This is because a ruling of the Comptroller General concluded that federal agencies could not pay penalties and interest to the IRS out of appropriated funds.

While I understand the reasoning behind this position, it removes the incentive for federal agencies to remit their payroll taxes promptly. If a private business is a few weeks late, it will pay a 10 percent penalty, and possibly 15 percent. If a federal agency is months late, nothing happens.

Mr. Chairman, there should be some way to streamline the transfer of payments between federal agencies and the IRS. I hope our witnesses today can give us some recommendations.

Second, the Subcommittee will examine the 100 or so largest private accounts receivable. The top 100 accounts represent $6.2 billion in potential revenue. In February we urged the IRS to concentrate on such high dollar cases.

The IRS seems to have done so, but it is a good news-bad news story. The good news is that these accounts receivable have been reduced by $2.7 billion since February. But the bad news is that the IRS has abated or adjusted away over $2.6 billion and actually collected only $40 million.

The idea is to reduce the accounts receivables by collecting them, not by letting them slip away through abatements! The Subcommittee will be anxious to learn why such a high portion of the large accounts receivable have been abated rather than collected.

Mr. Chairman, the Subcommittee has been very active in the examination of foreign transfer pricing abuses, pension reform, government-sponsored enterprises, medicare fraud, and the Customs Service. You have set a challenging pace for us, but it has been worthwhile.

Mr. Chairman, I join you in welcoming our witnesses this morning.

Mr. McGRATH. Mr. Goldberg, in February of this year we had a conversation on the same issue with you and a person named Mr. Brennan.

What I was trying to elicit from you was whether or not penalties are imposed on Government agencies, State governments and so on.

Mr. Brennan says we do penalize Government agencies for not complying, as we do businesses. I went on to say, as a matter of comity, that probably is not the case. Mr. Brennan said, "To my knowledge, we do."

Mr. Goldberg said, "My understanding is we set up the penalty and the agency is precluded from paying that penalty out of appropriated funds. The short answer is you are correct."

And I asked whether or not the penalty is abated at some point in time, and you said you would have to check it out. Have you checked it out?

Mr. GOLDBERG. Yes. Mr. Keenan can answer that question.

Mr. KEENAN. We do not assess penalties against Federal agencies and we do not charge them interest based on a decision of the Comptroller General. I forget exactly how long it goes back, but for some period of time.

Mr. McGRATH. That is the answer now?

Mr. KEENAN. Yes. Federal agencies, that is the case——

Mr. McGRATH. Local governments or state governments?

Mr. Goldberg, the IRS has had an assessment for employment taxes of its own in the accounts receivable inventory in February of $449 which is not a lot of money. I suggest that if the IRS has an accounts receivable and balance then perhaps that is not the kind of expression of interest that we want the other Federal agencies to have. Am I correct?

Mr. GOLDBERG. That doesn't make me very happy, Mr. McGrath.

Mr. McGRATH. You are part of the Department of the Treasury, and the Department of Treasury has a balance due since 1986 of $24,000.

I suggest that the Treasury perhaps get its act in gear here and get rid of their assessment.

Chairman PICKLE. Would the gentleman yield?

Mr. GOLDBERG. Mr. McGrath, I think you are absolutely right. We are no different from the General Accounting Office, we are no different from the Judiciary, we are no different from any other agency in the Federal Government. We are no different than any other business.

Mr. McGRATH. As big a beating as the legislative branch has been taking these last couple of weeks, the House is up to date and the Senate is up to date in their payroll deposits.

It only seems to be executive agencies that are not up to date. I suggest that they get up to date.

Chairman PICKLE. You stated our former Comptroller General had ruled that you are not to pay a penalty and interest?

Mr. GOLDBERG. It was the head of the General Accounting Office.

Chairman PICKLE. I assume that theory is that there is no point in us penalizing ourselves. At the same time the fact that he so ruled to me means that there is no incentive by and large for these agencies to pay on time.

They know they won't get penalized or docked for any of the delinquences. I think we ought to reexamine this whole issue. I won't argue with whatever the Comptroller General argued, but I can sure question the procedure of it.

I would just say we are defeating ourselves when we overlook these penalties and interest.

I yield back.

Mr. Dorgan.

Mr. **Dorgan**. Thank you, Mr. Chairman.

Mr. Goldberg, the nature of this process is that we don't call you up here to give you a lot of good news.

I just want to start by saying that I think there is some good news in the Internal Revenue Service. I think your leadership has provided some new energy and new direction that I think in the long term can prove very helpful to reenergize the agency and provide some good management.

I just want to say that at the start.

The purpose of this hearing, however, is to follow up on a previous hearing we held. We were talking about accounts receivable, how large is the accounts receivable, how do we collect it?

Are there bells that go off in your system to respond to certain problems in accounts receivable?

I asked some questions because I had learned prior to that February hearing that some Federal agencies had not filed returns or had owed money to the IRS.

I was told at the hearing that that was not the case generally. I think towards the end of the hearing you indicated that you weren't entirely sure.

But we have received since that time a substantial amount of information. I have review sheets that come from the field staff that I think have been prepared monthly for the last 18 months or so.

I think Mr. McGrath referred to some of these agencies. These sheets give the name of the taxpayer, Environmental Protection Agency, EPA.

Was the taxpayer delinquent, the sheet asks. The answer is yes.

If yes; how much? $400,918.

Does this Federal agency have a history of filing and paying taxes late? Yes.

HUD, U.S. Department of Housing and Urban Development, was this taxpayer truly delinquent?

The answer is yes.

Does this Federal agency have a history of filing and paying taxes late? The answer is yes.

The Department of Justice, was this taxpayer truly delinquent?

The answer is yes.

Does this agency have a history of filing and paying late?

Yes.

Again, now, we are not talking about some Norwegian in the northern part of North Dakota.

It is the Department of Justice. Does this Department have a history of filing and paying taxes late? The answer is yes.

The Department of Commerce, does this Federal agency have a history of filing and paying taxes late?

Yes.

Department of the Treasury, as Mr. McGrath mentioned. Does this Federal agency have a history of filing and paying late? The answer is "yes."

These are field reports for the service. For example, the $400,000 owed by EPA was paid in June of this year 4 or 5 months after our February hearing.

They would have owed $400,000 at the February hearing when you and I were having these questioning periods about whether, in fact, Federal agencies owed you money. All of this leads me to this question.

Did you then, and apparently the answer is no, and do you now, and I hope the answer is yes, have a system so that you know that this kind of situation exists in the service.

It is a little embarrassing when the Department of Justice chronically files late tax returns, when Department of the Treasury, or EPA can't figure out how to file its tax returns.

If the Federal Government agencies can't collect and remit to the IRS, how do they expect the rest of the American economy to do so, businesses, citizens and others?

So, have you made some changes since the February hearing that would allow you to provide a different answer, to say, yes, I know exactly what is happening now, and we have a system that rings the bells. That we are taking care of Justice and, the EPA, and others to make damned sure they are not delinquent filers?

Mr. **Keenan**. We have made some changes since the February meeting. First of all, we have put in a reporting requirement from the field to the national office on all over $50 million assessments. These reports identify when the case will be resolved.

And if it is not shortly, there is a requirement that a plan for when the case will be resolved be part of that report.

We instituted another reporting requirement at the regional level for over $10 million cases and request a report to the regional commissioners with the same kind of information.

We put in controls on large dollar cases to try and improve the situation so that we have better knowledge and are more involved in the cases here and that we know better what is going on.

Mr. **Dorgan**. I understand that. Are there controls with respect to Federal agencies? You are talking about large dollar cases. What if during the next reporting period the Department of Justice doesn't report to you, don't send you the money? Do you know that quickly?

Does somebody say, we have got an embarrassment here?

Mr. **Keenan**. We at this point have not put in specific controls for all Federal agencies, but we have put in the dollar controls. So if they are large dollar amounts, we have controls, but we have not put in a system just because it is a Federal agency.

Mr. **Goldberg**. Mr. Dorgan, the questionnaire that you are reading from, I believe the phrase is, is this Federal agency chronically——

Mr. **Dorgan**. Does this Federal agency have a history of filing and/or paying taxes late?

Mr. **Goldberg**. I think the phrase and/or and the answer to the question yes, is one or both. I think what we have found, and as I said, pretty darned bluntly in my testimony, there are agencies that are chronically late in filing, and that is unacceptable.

You can't ask citizens to do things the Government isn't doing. That is wrong.

Now being late filing is inexcusable, but it is different from being late in paying. I think that our experience would show that those agencies where the response is yes, it refers to the lateness of filing. I am not justifying, but I think it is important to understand that.

The second point is what we have done during the past several months, and they are listed on page 6, and I think the chairman is absolutely right. We owe you a lot more than a promise to work harder. We owe you a list of specific steps that ought to be taken to fix the problem.

I am confident if we do those items on page 6 that we will essentially eliminate the issue. We need to make the agencies understand that filing on time and doing it right matters and that there is a cost to not doing it right.

That cost is somebody at an executive level who is accountable has to fess up and say what they do wrong, because they are wasting their money to fix the problem. If the Agriculture Department has to fix a problem, it has one of its employees wasting his or her time reconstructing records instead of taking care of the farmers. So that is the problem.

Mr. DORGAN. We don't want them taking care of farmers the way they have been taking care of farmers lately.

Mr. KEENAN. I have some information on EPA. I don't know if you want to go into it. There, too, they eventually paid us $400,000. There is additional information about a refund that went to them previously that shouldn't have gone to them.

In effect, when we collected the $400,000, it was a repayment of the refund that never should have gone to them. When we look into these cases, we constantly find the same kind of things, errors, mistakes, misapplied payments.

Mr. DORGAN. I have been a tax administrator, and I understand about the error resolution function in your business. Errors are going to happen. If you have 2 percent error or 1 percent error rate on the billions of transactions you have, you are talking about a lot of errors.

But a $400,000 refund overpayment is not small potatoes. That is the kind of error you get somebody tracking very quickly.

As I look at a couple of these filers, you have a situation with the Federal agency where they had a problem in 1982 and it was resolved in 1990. Then I ask myself, what kind of roman candle is tied to the backside of somebody trying to resolve this error?

It is obviously not one that is burning. It doesn't take 8 years to do that.

I see a pattern that is troublesome because I think you have to have a system that alerts you to what the problem is and a system that allows you to solve it in an organized way.

I especially know because of the February answers that we don't have a system that allows us to know what is happening to the Federal agencies.

There is not too much difference between the requirement to file and pay. If you have a fundamental breakdown in a requirement to file, you will ultimately have a breakdown in the ability to collect the money.

That is why filing is part of the important foundation for compliance in the tax system. These are fascinating. It is kind of a shameful record that the Department of Justice is described by an employee of the IRS as an agency that has a history of filing and/or paying their taxes late. That is shameful.

I don't mean to take a lot of the chairman's time. The GAO on page 6, says,

> However, in addition to clerical and bookkeeping errors, we observed a more disturbing pattern, late filing of tax returns.
>
> More than two-thirds of the 63 Federal agencies filed tax returns late. IRS detection of late and insufficient payments is delayed when returns are not filed on time.

It seems to me that part of the responsibility here is to the person that is running HUD, or the EPA. You don't bear the responsibility. They run those agencies. If they can't figure out how on earth to get their data in to the IRS on time and done right, then we need to get those folks up here.

Maybe they are so busy looking at the big picture that they can't do the things the rest of the American people do, like pay their taxes. If so, we need to tell them that is shameful.

The GAO, when it says there is a pattern of late filing of tax returns by Federal agencies, that is kind of disturbing and I assume disturbing to you?

Mr. GOLDBERG. On page 5 of the Commissioner's testimony, the Commissioner says there are instances of late filers and those whose returns are inaccurate and incomplete.

We don't like it either. I think that one of the things we need to pay careful attention to is if we spend all of our time dealing with the EPA's or Defense Department's or State Department's or Justice Department's or IRS, or Treasury, fixing those things after they have gone wrong, and what we keep finding is the money was never owed, then we are spending our money and their money to fix things that should never have happened in the first place.

In my own judgment on this particular issue, I think our energies and efforts are best devoted to finding ways to prevent these problems from occurring in the first place.

If all the agencies filed on time and all the agencies filed accurately and we were more accurate in our procedures, and if there were mechanisms to make electronic transfer payments or book entry payments as opposed to having the Defense Department draw a check on the Treasury Department to send to the Treasury Department, if we clean up those kinds of things, if we have a training program—our job is to educate, not to harass.

We have a training program for these other agencies so they know what their responsibilities are, and if we have some kind of accountability mechanism which says if you are late or if you don't make full payment, accountable executives in the executive branch know about it, I think this problem is going to go away, and the benefit will be that we can then use our tax dollars for the reason we are supposed to spend it, which is to collect moneys that are truly owed.

Mr. **Dorgan**. Let me make this comment.

I think U.S. Commissioners should send a letter to the head of the agencies that have been chronically late and say, look, this is an embarrassment to you, to your organization, and to us, and we are going to change it.

I think in about a year we should have another hearing and find out which of these agencies have decided to take this serious and which we should bring up here and embarrass publicly because there is no excuse for them not doing what we have asked the rest of the American people to do.

We shouldn't have to embarrass the IRS on behalf of the HUD or Commerce or Justice or others who cannot do this. We are interested, I think, on this committee in working with you to find out how can we employ the right resources for the IRS or how can you employ the right resources funded by us that gets this accounts receivable down, deals with them properly, and deals with the Federal agencies properly.

Let me ask one question about the more general accounts receivable area.

During the previous hearing in February, you gave me an estimate of how much of the total accounts receivable you thought was ultimately collectible. Could you give me that estimate again on the current accounts receivable? Have you done any work since then to lead you to change your mind about the percentage that will ultimately be collectible?

Mr. **Goldberg**. My conservative friend here is at 35 percent. I would put it in the 40- to 50-percent range. It is where we are. We have spent a lot of time trying to develop that number.

The real issue is how much is collectible. How quickly can we collect it? Can we increase collectability? For example, if a taxpayer doesn't hear from us for 5 years because there has been a hiring freeze, that taxpayer is a hell of a lot deeper in the hole. I think they have been betrayed by their Government because we let them get that deep.

If we get to that taxpayer earlier, the odds of collectability go up. We need to increase collectability as well as deciding how much is owed.

We, as I said before, during 1991 we will be giving the Congress and the public a number as to what we think our net accounts receivable figure is.

The low side will be 35 percent of the gross. I would guess at the high side it would be 40 to 50 percent of the gross. Then we can begin to manage the issue like a business would manage it.

With respect to the letter to the Federal agencies, I might mention we have had a project underway. We have prepared draft correspondence. We have reviewed payroll tax systems with the Federal agencies and are engaged in the type of communication you recommended, Mr. Dorgan.

Mr. **Dorgan**. If I were Thornburgh running Justice, I would want to know that my agency has a dispute that might embarrass me in the papers some day. I would want to take the people in my agency who are responsible for that and say, look, folks, either you do this job and do it right or I will get people who can.

I just hope that there are people who know that in Federal agencies.

Mr. McGrath. Would the gentleman yield?

The information I have here in front of me is that as of September 1990, just this past month, there were 640 Federal agencies' accounts that are in accounts receivable inventory, totaling $152 million. I think it sets a pretty bad example for the rest of the country in our voluntary tax system.

Mr. Posner, let me ask you, you heard my little conversation with Commissioner Goldberg regarding whether or not Federal agencies or governments pay penalties or interest. What was the reasoning behind the Comptroller General's decision?

Mr. Posner. Twofold. First, as a matter of appropriations law, absent any other statutory authorization, money appropriated by Congress for programmatic and other purposes are not to be used for other purposes, for example, paying penalties to IRS.

Second, the other rationale is what is called the same hands rationale, which is the money is in the same hands, so the Federal Government isn't losing interest from real revenues like we do with private taxpayers.

Mr. McGrath. It was a matter of incentive.

Mr. Posner. I agree; there is that consideration.

I might add on that, we noticed in the testimony, noticed that this filing seemed to be a low priority. Agencies themselves indicated that to us.

How do you increase that priority? One way, obviously, could be penalties. I might add that the penalties IRS has for failure to file do not apply if there is no balance due. That is a limit, a constraint. There would be a filing penalty on any taxpayer only if there was a balance due.

Mr. McGrath. And your belief is that many of these accounts receivable inventories are mistakes made by the agency or the IRS?

Mr. Posner. The vast majority of them; that is correct.

Mr. Goldberg. I don't want to be defending the behavior that is indefensible. I think it is important to point out when you mention the word "incentives," as I understand the process, if a private employer doesn't deposit the money, it can use the money. Unfortunately, small businesses get in trouble, and we need to do a better job of keeping them out of the soup to begin with.

If a Federal agency doesn't pay the money over, it doesn't mean they can spend any more money. There is no incentive to say I have got a budget shortfall or I have got a problem or I want to supplement my appropriations; I am not going to pay it now. They can't use that money. It doesn't justify being late or underpaying.

I think you have a different situation in the Federal Government. I think what we need to do is kind of make the agencies pay enough attention so they do it right the first time.

Mr. McGrath. If you were sitting on the outside as a small businessman or even a large corporation you know that if you didn't comply, you would pay interest in penalties. But now they know that the Federal Government doesn't. Is there a double standard here? Do you think there is a double standard?

Mr. Goldberg. Mr. McGrath, I am terribly offended by double standards. I think one of the problems we have in our tax system—

I am not talking about accounts receivable now—I could not think as a matter of good Government the Federal Government ever has a right to ask its citizens to do something the Government can't do itself. I don't think the IRS has a right to ask a taxpayer to respond in 20 days to a letter if it takes us 6 months to get back to them. That is bad Government. That is not fair to our people.

I think we ought to change that stuff.

Mr. **McGrath**. Thank you very much.

Chairman **Pickle**. Mr. Goldberg, when we had our hearing in February we asked one of your top people if there were any of the Federal agencies that were in arrears and hadn't paid their taxes. He said no, he doesn't know of any. He wasn't familiar with any. He is one of your top people. He said he would look into it. He didn't really know.

Then we relied on Mike Murphy. He stepped up and said there might be a few.

Mr. **Goldberg**. Mr. Murphy saved my bacon more times than I can count, Mr. Chairman.

Chairman **Pickle**. He kind of fessed up that there might be some out there.

I don't think that the official testifying was deliberately misleading us or giving us false information. It disturbs us that he would say, no, I don't think there is any Federal agency behind and we found out there are over 100 of them, way over 100.

It leads us to believe that you don't know, or some of you folks don't know, what is going on in this particular area. I am going to assume it was not deliberately misleading, but it has disturbed us very much that this is going on. I think you have got to admit that we have to do a better job in this particular field.

I am sure that you are going to do it.

I make another point, that when you give me a figure of $100 billion it has got to be a realistic figure. It has been growing. It was $83 billion something last year. In August of this year—it is over $90 billion. By the time we come back after the first year, the accounts receivable is going to be over $100 billion. It is growing at a rate of about $1 billion a month. The American people have a hard time understanding that your accounts receivable is growing at a rate of $1 billion a month.

Either that has got to stop or it has to be better understood what that figure means. I don't know how you would handle that, but it is a very disturbing situation we find ourselves in.

I am not going to pick at individual Federal agencies because I think we have made the case that most are not doing it. Since they don't have to pay penalties and they don't have to pay interest, it has been a practice that we kind of look the other way. And that has got to stop.

In the interest of time, I want to skip over to a question that the Defense Department may answer. I know we are going to have a vote in just a minute. Let me give you a situation we have discovered down there.

The Air Force in Japan has a balance of $150,000. The Internal Revenue Service indicated that a check sent by the Air Force in 1985 that was applied to a 1980 tax liability case. According to the IRS, this was done because the IRS did not want the statute of limitations on the case to expire. They just used the 1985 payment without notifying the Air Force.

Will you tell me what did happen in that case or what is the current status of that particular case?

Mr. GOLDBERG. Mr. Chairman, we will have to look into that case and get you that information.

Chairman PICKLE. Can you answer me whether the statute of limitation has expired on any Federal agency?

Mr. HUNT. The ones that have been worked in the Baltimore district, none have expired. We have been successful in securing——

Chairman PICKLE. None of them have expired?

Mr. HUNT. Right.

Chairman PICKLE. Well, our staff tells me that you are in the process of issuing one statute expiration right now. Are you familiar with that?

Mr. HUNT. Not with that particular case. I am specifically talking about cases in Baltimore.

Chairman PICKLE. When you explain this Air Force question, also tell me if one is about to.

Mr. GOLDBERG. Mr. Chairman, we will look into that Air Force case. If your staff will let us know what particular taxpayer is involved and what statute is involved, we will be happy to provide you with the information.

[The information follows:]

### EXPLANATION OF DEPARTMENT OF THE AIR FORCE CASE

The problems with this account (Department of the Air Force, Accounting and Finance Office, APO San Francisco 96328) began with one of the taxpayer's payments for the payroll taxes for the period ending June 30, 1980 (8006). A check in the amount of $156,534.03 was submitted to the Federal Reserve Bank in payment of the Federal Tax Deposit and apparently paid by the bank, but there is no record of this payment posting to the taxpayer's account. When an overpayment credit became available from the quarter ending March 31, 1983 (8003), it was applied to the 8006 account. This credit was subsequently reversed and a notice was sent to the taxpayer in October 1984 advising that the 8006 account had a balance due. The assessment date for the account was Sept. 29, 1980, so the collection statute date was Sept. 26, 1986. In February 1986, the Service applied an overpayment credit in the amount of $156,377.07 from the quarter ending Sept. 30, 1985 (8509). In late 1986, the Service found that the overpayment on 8509 was a result of a misapplied deposit. In the meantime, the statute has expired on the 8006 quarter, so the Service could not reverse the credit on that quarter. This resulted in a balance due on the 8509 quarter. Neither the taxpayer, IRS, or Treasury has records that go back 10 years to verify the original payment of $156,534.03. Treasury has advised us that they keep canceled treasury checks for only 6 years and 6 months before they are destroyed, so the 8006 check is not available.

The register for unidentified remittances was checked, but the missing payment was not located. Check reconciliation at the Federal Reserve Bank determined that the check was paid, but they have no microfilm records of the canceled check due to the age of the check. Further research at the Fresno Service Center is being conducted to determine if the credit exists on their excess collection registers. Based on the check data provided by the taxpayer, the Assistant Commissioner (International) has requested a substantiated credit for the amount of the missing check. This should resolve the 8509 account.

It is our policy to apply taxpayer payments where the taxpayer directs and that was done in both of these instances. We did not move any of these credits until the apparent overpayment conditions existed. When credit misapplications are corrected, we generally will move the credits to the period where they should have posted originally. In cases like this, where long periods of time have elapsed, we may not be able to move the credits to the correct periods. Whether we move the credits to the original period or not, it is our policy to advise the taxpayer prior to taking the action on the account.

### FEDERAL AGENCY STATUTE EXPIRED CASES

According to our master file records, 50 Federal agency modules had the statute expire during the period Jan. 1, 1990 through Oct. 31, 1990. Thirty-five of the modules had balances less than $1,000. We generally do not actively pursue low balance cases because it is not cost effective.

Of the remaining 15 cases: 3 were awaiting the application of a missing payment, 2 were extended by signed waivers that did not post to the system, 1 was full paid by a credit that became available from an adjustment that was pending before the statute expired, and, 9 are still being researched, including 4 that were in currently not collectible status.

Generally, statutes are allowed to expire on cases that have been deferred, placed in the queue so that higher priority cases can be worked, reported uncollectible or have adjustments pending that will fully resolve the balance. We closely monitor cases in active inventory for potential statute problems.

[The Subcommittee has requested a listing of the 50 Federal entities.]

Chairman **PICKLE**. Now, I am going to submit other questions to you in the interest of time, because I do want to hear these other witnesses. I want to say, again, to you in the overall picture, there will always be an accounts receivable inventory. As our economy and our Nation get bigger and stronger or get more in debt, we are going to constantly see the effect on receivables which will get bigger and bigger. But just because it is growing that is no reason just to accept the fact that we are just going to let these accounts receivable get bigger and we aren't going to handle them better.

The American people have a right to understand what you are doing and you have got to have a plan. I think oftentimes some of the IRS people are complacent about not collecting some of this money.

I can understand somewhat when you send them a notice, you send them another notice, a third notice, and you threaten them and you take them to court and you appeal and finally you get worn out. You just set it aside.

That is what happens in a sense when we look at 100 of the top taxpayers, top cases, that were sent up here. When our staff went down to look at them, they were there at the IRS in cardboard boxes back in a shelf and had not been looked at essentially.

Perhaps you would have, at some point, gotten to it. We found they were full of errors. Some of those top cases were not even in arrears. In one or two cases we actually found out that IRS had to pay them a refund. They weren't behind.

In one huge accounts receivable case you had to have close to 1 million partners to account for the amount of money you said was receivable.

Now, that's not the real world. I think we observe that a much better job can be done in Collections; otherwise, the American people are going to rebel at cuts in programs or increased taxes when they think that the people out there are not paying their fair share.

I am naive enough to believe that the average American citizen wants to pay his fair share of taxes and is willing to pay.

But the rebel and the spirit are getting stronger when they see so many people not paying. They see that there is $100 billion both of off-the-counter accounts and under-the-table tax gap practices going on.

You and I know that is going on out there, and we haven't got the force or the manpower to do something about it. That's got to change and we have got to get the money collected if it's out there. We have to be determined.

Now, this plan you have got before us now is a good beginning. I am glad to see that you said we have got a plan and we are going to follow it. We will have additional hearings to see whether you have progressed or not.

Mr. Dorgan.

Mr. DORGAN. At the previous hearing, we had some discussion about the statute of limitations, and we were told that there were generally protections on the statute and that if the potential for the statute being blown existed, there would be bells and whistles go off.

But I think I heard a while ago some testimony that you weren't sure at this point whether the statute has expired with respect to some of the Federal agencies.

What is the case? Do we have a system that will alert us to the potential exploration of the statute, or don't we?

Mr. KEENAN. We certainly have a system that alerts us to statute of limitations becoming imminent that is identified a year before reports are issued, people that have responsibilities for the cases.

The hesitancy on the question is I have with me reports on all 63 Federal agencies, and I honestly couldn't tell which one from the way the question was raised. I just want to make sure I don't give any bad information.

So, I will be happy to remain, identify which case it is and provide you with the information we have on that case.

Mr. DORGAN. But somebody would be bringing to your attention the potential expiration of the statute like this?

Mr. KEENAN. To management's attention, yes.

Mr. DORGAN. The testimony is not going to allow it to expire?

Mr. KEENAN. Absolutely.

Mr. DORGAN. Thank you, Mr. Chairman.

Chairman PICKLE. Mr. Goldberg and Mr. Posner, I thank you both. We will submit additional questions. We have got a bushel full of them. We ought to try to find out more information, but in the interest of time, we are going to proceed with the next panel.

I thank you both for your testimony and for your cooperation.

[Additional questions to the IRS and their responses follow:]

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December 12, 1990

The Honorable Fred T. Goldberg, Jr.
Commissioner
Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, D.C. 20224

Dear Commissioner Goldberg:

I appreciate your appearance as a witness at the Subcommittee on Oversight's hearing to review two components of the Internal Revenue Service accounts receivable inventory: the Federal employment tax assessments against Federal agencies and the 100 largest accounts receivable cases.

I. Accounts Receivable Inventory Update:

A. IRS reported that the accounts receivable inventory was $84 billion at the end of February, 1990. How much was the accounts receivable inventory at the end of September, 1990, including accruals and currently-not-collectible accounts?

B. At our earlier hearing, Mr. Murphy reported that "when a statute is blown in the Internal Revenue Service, bells sound, lights go on, there is a set procedure when that type of thing happens." How much of the inventory went uncollected during fiscal year 1990 because the statute of limitations expired?

C. How much of the inventory went uncollected in fiscal year 1990 because there were not enough collection agents? How many agents would be required to collect this amount and what is the cost?

II. Federal Agencies in the Accounts Receivable Inventory:

A. At the end of February, how many Federal agencies were not current with employment tax remittances to the IRS?

B. How many Federal agency accounts are there for which IRS has issued employer identification numbers (EINs)? Is it true that half of these numbers are inactive?

C. Back in June, IRS told the Subcommittee that it is not possible to tell the exact number of Federal agencies involved because some agencies have more than one EIN. Further, IRS reported that "we do not know specific Federal agencies that are not current" and "we do not know of delinquent remittances in 1988 and 1989."

1. Since then, have you been able to determine who is included in the 676 accounts?

2. Which Federal agencies are involved and what is the total amount attributable to accounts under these agencies?

D. How many Federal agency accounts are in the accounts receivable inventory as of September 30, 1990? Which agency is the largest and what is the amount involved?

E. Federal agencies do not pay penalties and interest due to a Comptroller General decision in 1978.

1. How has this affected Federal agencies' concern with filing returns and making deposits on time, and their interest in resolving delinquent accounts?

2. How has this affected IRS's monitoring of these accounts?

3. Should Federal agencies pay interest?

4. There appear to be Federal EINs which involve nonappropriated funds. Is that correct? Do you monitor whether a Federal EIN should pay interest because it involves nonappropriated funds?

5. Do state and local governments pay interest on delinquencies?

F. Of the 676 accounts, do you agree with GAO's finding that 63 accounts were in excess of $100,000 as of February 24, 1990?

G. What was the total amount in the accounts receivable inventory attributable to these accounts?

H. When asked by the Subcommittee in February whether there had been a government agency that had not paid required employment taxes and had shown up in the accounts receivable inventory for over $100 million, the IRS responded twice "there is none now". Of the agencies included in the accounts receivable inventory in February, the largest assessment by agency was the Department of Defense with a $151 million total. Isn't that correct?

I. What other agencies, according to IRS, have accounts that were in the accounts receivable inventory in February and what were the assessed amounts for each of these agencies?

J. One agency may have assessments shown for many quarters or a number of years. How many tax assessments are represented with these 63 agencies?

K. Of the tax assessments represented, 26 relate to 1982, 1983, and, 1984. It's the end of 1990. What is the statute of limitations for collection of these assessments?

L. For how many Federal agency cases has the statute of limitations expired? In which of the 63 accounts over $100,000 did the statute expire? How closely do you monitor the statute in Federal agency cases?

M. How many statute of limitations waivers has IRS requested from Federal agencies included in this list of 63 agencies? Has an agency ever refused to sign a waiver?

N. Of the different tax assessments shown in the 63 accounts that GAO reviewed, 79 related to taxes due for December 31st or the 4th quarter of the year. We are told that agencies redirect their resources to prepare W-2 statements for employees instead.

   1. Are agencies failing to see the importance of timely remitting employment taxes and delaying until there is more free time later the next year?

   2. What has IRS done to prevent agencies from following this illegal pattern again this year?

O. Of the tax periods shown in these 63 accounts, the number of assessments was the highest for the September, 1989 tax period when the President's sequestration order was in effect.

   1. Was this delay in remitting taxes related to sequestration?

   2. Were there any late payments from the September, 1989 quarter?

   3. What penalties apply to an agency when employment taxes are converted for other uses?

P. Do you regularly report to anyone, such as OMB, on the status of employment tax assessments against Federal agencies? What about when an irregularity occurs, for instance in the case of the 300% increase in Federal agency assessments during September, 1989?

Q. At the earlier hearing, we were told by IRS that "Federal agencies only theoretically owe us money." After the hearing, the IRS reported that "generally the money in the accounts receivable for Federal agencies is not due" and "in almost all of the accounts the money is not due".

1. According to IRS records, which agencies made a payment to the IRS since February to satisfy employment tax assessments that were in the accounts receivable inventory in February?

2. For each of these agencies, how late was the payment you received?

3. Did IRS timely notify each of these agencies of the assessment?

4. How soon after receipt of the notice did they pay?

R. The U.S. Information Agency had a balance due of $1.4 million for September, 1988, which was satisfied through a payment by USIA and a credit for a 1983 payment. In April, 1990--seven years later--the 1983 missing deposit was found.

1. How could a deposit be missing for this long?

2. What do you do to identify the location of a missing deposit to be certain that you have found the correct account for the deposit?

S. The IRS reportedly notified the U.S. Army Communications in Ft. Monmouth, NJ, about a $111,990 employment tax assessment in March, 1989. A payment from Army was not received by IRS until March, 1990. Why would it take one year for payment to be sent--no lost check was involved?

T. In May, the IRS sent a "Notice of Intent to Levy" to one of the Air National Guards. Other than this situation, has IRS ever sent out any levy notices to Federal agency taxpayers? Has IRS ever levied against any property of a Federal entity?

U. What happens to an agency that shows an employment tax assessment because employees of the Treasury have stolen that agency's employment tax deposit checks? Is the agency considered delinquent or is this Treasury's responsibility?

V. The Accounting Office at Ft. Dix is having difficulty reconstructing payments to the IRS back in 1983 because the records are so old they have been destroyed.

Is that your understanding of their problem? When did the IRS notify the taxpayer of the 1983 employment tax assessment? Will the statute expire or what will happen with this account?

W. There were several Federal agency cases assigned to a revenue officer at the beginning of 1989. These include cases involving the Department of Air Force in Japan and Panama. The revenue officer was detailed to other assignments until March, 1990, so these cases sat unworked.

Would this be the case with delinquent tax deposit cases for individual taxpayers or corporations or only for Federal agencies? What happened, and why were these cases never reassigned?

X. The Navy Exchange has a $354,000 delinquency. The IRS agent's fact sheet states that "the case has not been actively worked in the last 12 months". Why?

## III. IRS's and Treasury's Own Employment Tax Assessments in the Accounts Receivable Inventory:

A. IRS had an assessment against itself for employment taxes of $449 in the accounts receivable inventory in February.

1. When was a notice sent out on this assessment and to whom?

2. When was the first time the Commissioner was made aware of this?

3. Why wasn't this resolved?

B. What other accounts related to the Department of the Treasury have a balance due and for what years?

C. Describe the reasons that the Department itself maintains a balance due of $24,000, some of which relates back to 1986.

D. GAO is listed on IRS's accounts receivable with assessments dating back to 1983.

1. IRS agent's fact sheets on the GAO cases indicate that the statute of limitations is expiring in less than one year on two of the unresolved tax periods; that there is no waiver; and, that it will be closed. Has the IRS

requested that GAO sign a waiver of the statute for these periods? If not, why?

2. How many notices have been sent to GAO regarding these assessments and when were they sent?

3. A recent IRS agent fact sheet indicates that "GAO has a history of filing and/or paying taxes late." Will you explain?

### IV. Late Filings of the Employers Quarterly Tax Return:

A. According to IRS, what percentage of the returns included in the tax assessments involving the 63 Federal agencies were filed late?

B. What incentive is there for a Federal agency to file on time?

C. How many late filing notices went out during the past fiscal year?

D. What percentage of all Federal agencies file the Form 941 on time each quarter?

E. Are agencies accurately completing the Form 941? In your opinion, are agencies delegating the responsibility for employment tax payments and filings to qualified personnel?

F. How can the IRS increase the timely filing of the Form 941?

### V. Federal Tax Deposit System:

A. In making Federal deposits, an agency must forward to the Financial Management Service (FMS) its Federal tax deposit coupon with an authorization form indicating the amount of tax due. FMS cuts a check for that amount, attaches the coupon, and mails this to the Federal Reserve Bank (FRB). The FRB deposits the check and mails IRS the coupon with a receipt showing amounts deposited.

1. What problems result from this system?

2. Is there any way to trace a payment to a certain FTD coupon if the check and the coupon become separated?

3. Is there someone at the Federal Reserve Bank available to assist the IRS in locating missing payments? How does IRS go about locating a missing payment if the taxpayer sends proof of payment?

4. How can the Federal tax deposit system be improved?

B. How does the system used by private employers differ?

C. Has IRS been working with officials at Treasury and FMS to improve upon the current system? If so, for how long, what have you recommended and what is the status of your efforts?

VI. Large Dollar Cases:

A. According to GAO, collections from the large dollar cases since March have totalled only $40 million, while abatements and adjustments have totalled $2.5 billion.

1. Is this correct?

2. What is the total amount attributable to abatements?

3. How much of this amount is due to IRS error, and what are the errors? What is the longest that an IRS error has remained in the large dollar inventory undetected?

4. How much of this total is attributable to adjustments and what type of adjustment is occurring?

B. Since May, 1987, the IRS has produced a large dollar listing that is provided to field offices weekly. Is that correct? How quickly are large dollar cases being resolved, on average?

C. Earlier this year, the Subcommittee staff reviewed the cases in IRS's inventory with over $100 million in assessments and found clearly erroneous assessments (i.e., a partnership penalty assessment of $250 million which assumes one million partners). Are all such gross errors in the large dollar case inventory (cases in excess of $1 million) gone today?

D. In one case GAO reviewed, more than of $150 million was lost because the statute of limitations expired. Describe that case. Why wouldn't this case have been moved to the currently-not-collectible inventory last September?

E. One of the cases that has continued to show up in the inventory is a fictitious filer with delinquencies dating back to 1988. What is the case about? Why would this case continue to appear in the large dollar inventory?

F. Is it true that in May, 1989 an IRS processing error caused an erroneous assessment of $26 million which appeared in the inventory for one year? Why wouldn't this have been detected earlier as part of the large dollar case review that has been ongoing?

## VII. Other IRS Issues:

A. GAO recently submitted a report to the Subcommittee showing that between April 15 and May 7, 1990, two IRS service centers averaged 7 days to deposit about $6 billion in tax payments. GAO noted that the Federal Government could have earned $6.2 million in additional interest if these two service centers had deposited the payments of $5,000 or more within 24 hours.

   1. Do you have any comment on this report?

   2. What is IRS doing to isolate large payments in order to deposit them more quickly during the next filing season?

B. There have been various plans, some proposed by Members of Congress, to deal with the accounts receivable inventory:

   1. One proposal, in general, would allow for collection of the accounts receivable inventory by state/local revenue officers. That proposal was forwarded to you for comment over six months ago, and yet no response has been received. Do you support this type of proposal? What are your concerns? What variations on this type of proposal would you support?

   2. One proposal deals with increasing IRS resources and a one-time waiver of civil/criminal penalties. Do you support this type of proposal? What aspects of this type of proposal do you support and what concerns are raised?

   3. What about the use of private collection agencies for portions or all of the accounts receivable inventory? Has IRS considered contracting out collection activity and, if so, what were your findings? What taxpayer-rights safeguards would need to be included and how would IRS monitor private collection activities?

C. It has been reported that the IRS failed to sign the Form 23C which is necessary to validate assessments made by the IRS. It has been reported that one invalid Form 23C was attached to 256,000 items totalling $2.6 billion.

   1. Is it true the Form 23C, which is necessary to validate IRS assessments, has been improperly completed on occasion? Further, is it true that one invalid Form 23C covered hundreds of thousands of assessments totalling billions of dollars?

   2. Why did this happen? How many times has this happened before? Don't you review all of these forms?

3. What is the total amount of the assessments covered by improperly completed Form 23Cs?

4. How much of the accounts receivable inventory is attributable to this type of invalid assessment?

5. What is the IRS doing in these cases?

D. According to a recent newspaper article, a tax-exempt foundation in the Washington, D.C. area is spending $2 million for a rooftop meeting room which would be encircled by a running track and exercise facility.

1. Can a tax-exempt organization spend millions on luxuries?

2. Should we change the applicable tax laws in some way to prevent this kind of spending?

3. In examination of tax-exempt organizations, how often does the IRS find that corporate officers are paying themselves too much for the work they do?

4. Are there tax-exempt organizations in the accounts receivable inventory? What are the issues involved in these deficiencies?

5. Are the organizations in the accounts receivable inventory because they did not pay unrelated business income tax?

E. The Subcommittee on Oversight has identified specific areas of noncompliance which contribute significantly to the growing tax gap. The Subcommittee is trying to develop a strategy with specific recommendations for closing the tax gap and enhancing overall taxpayer compliance.

1. What specific proposals are Treasury and IRS prepared to support to deal with "pockets" of taxpayer noncompliance? For instance, to what extent can compliance be improved if the following issues were addressed?

   a. Independent Contractors/Section 530

   b. Extension of Information Reporting

   c. Extension of Withholding

   d. Improved Identification and Notification Regarding Non-payment of Employment Taxes

c. What impact does misclassification have on the economy? To what extent is the problem growing?

d. What is the risk to the employee who is misclassified? The employer?

e. What specific proposals has the IRS developed for resolving this question?

Your immediate attention is appreciated. The Subcommittee hearing record needs to be printed before the Congress reconvenes next year. Therefore, please provide your response by January 11, 1991. If you have any questions, please feel free to contact Susan Athy, at 225-5522.

Sincerely,

J. J. Pickle, Chairman
Subcommittee on Oversight

JJP/sal

   e. Eliminating Recurring Corporate Tax Issues

   f. Taxpayer Education/Assistance Programs

2. In November 1989, the Subcommittee on Oversight requested information on IRS's "Compliance 2000", a strategic initiative created in April 1988 to enhance revenue and close the tax gap through enforcement and assistance programs. The Subcommittee has received very little information about this project despite repeated requests.

   a. Where is the final report?

   b. When will it be ready?

   c. Why is it taking so long to complete a project that was initiated more than 2 1/2 years ago?

3. The IRS testified on April 19, 1990, that the agency was planning to publish reports on the illegal-sector income tax gap and the employment and excise tax gap later this year. It has been six months and the reports are nowhere to be found.

   a. Where are the reports on the illegal-sector tax gap and employment and excise tax gap?

   b. What is taking so long?

   c. Can you give any preliminary estimates on the size of the employment tax gap? How about the illegal sector tax gap?

   d. When can the Subcommittee expect to receive final reports?

4. The IRS estimates that $10.335 billion was lost for tax years 1984-89 due to misclassification of workers as independent contractors. Specifically, for tax years 1989, the IRS estimated the revenue loss due to misclassification to be $1.886 billion, of which $146 million is directly attributable to section 530 of the Revenue Act of 1978.

   a. Is it possible to definitively address the independent contractor question?

   b. What difficulties would the Subcommittee face in trying to resolve problems associated with the misclassification of workers?

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

COMMISSIONER

MAR 4 1991

RECEIVED
MAR 4 1991
Ways and Means
Subcommittee on Oversight

The Honorable J. J. Pickle
Chairman, Subcommittee on Oversight
House Committee on Ways and Means
1105 Longworth Building
Washington, D.C. 20515

Dear Mr. Chairman:

In response to your letter of December 12, 1990, I am enclosing responses to the follow-up questions from the October 18, 1990 hearing on Accounts Receivable. We are also providing responses to the issues raised by Mr. Maupin and Mr. Tucker concerning IRS handling of Federal agency accounts.

Please let me know if you have any further questions.

Best regards,

Sincerely,

Gayle Morin

Gayle G. Morin
Assistant to the Commissioner
(Legislative Liaison)

Enclosures

## I. Accounts Receivable Inventory Update:

A. **IRS reported that the accounts receivable inventory was $84 billion at the end of February, 1990. How much was the accounts receivable inventory at the end of September 1990, including accruals and currently-not collectible accounts?**

At the end of fiscal year 1990 the gross accounts receivable totalled $96.272 billion. Adjusted accounts receivable totalled $64.147 billion. This figure includes $12.607 billion of accrued penalty and interest. Currently-not-collectible accounts, which are not included in the adjusted total, stood at $32.125 billion.

B. **At our earlier hearing, Mr. Murphy reported that "when a statute is blown in the Internal Revenue Service, bells sound, lights go on, there is a set procedure when that type of thing happens." How much of the inventory went uncollected during fiscal year 1990 because the statute of limitations expired?**

During Fiscal Year 1990, the collection statute expired on cases with a total value of $3.1 billion.

Procedures are in place for dealing with cases in active collection status that are not assigned to the Automated Collection System (ACS). On a monthly basis a report called a DIAL, (Delinquent Inventory Account List) is generated which shows the scheduled Collection Statute Expiration Date (CSED) when less than 60 weeks remains on the statute. Copies of the DIAL are sent to the employee, the immediate manager and to the mid-level manager. If a statute expires on a case being actively worked, a report is prepared by the responsible employee and forwarded through channels to the District Director. Each interim level of management reviews the facts and circumstances involved including making a determination as to whether or a system failure caused the problem or if disciplinary action is warranted. The District Director then insures that appropriate corrective actions are taken.

ACS processing is slightly different. Each week, a Collection Statute Expiration Date (CSED) List is generated at each ACS call site, listing accounts where the statute for collection may expire within 12 months. Employees research each case to verify the correct statute expiration date. If the valid CSED is within 12 months and the case meets criteria to bypass the Resources and Workload Management System (RWMS) Queue, it is reassigned for immediate field contact. These include sensitive cases such as those involving government agencies, protesters, prominent individuals, and certain types of tax. Cases with expiring statute dates that do not meet queue bypass criteria are worked routinely by ACS within the current priority sequencing system. The statute may eventually expire on some low priority cases.

C. **How much of the inventory went uncollected in fiscal year 1990 because there were not enough collection agents? How many agents would be required to collect this amount and what is the cost?**

Generally, accounts do not go uncollectible due to a lack of collection agents. Cases available to be worked by field personnel, Taxpayer Delinquent Accounts (TDAs), are first stratified on their yield potential and then worked based on that potential. The higher the yield potential the faster the case will be worked. This stratification mechanism is called the Resource and Workload Management System (RWMS). TDAs with low yield potential are assigned to a holding file - the Queue - until higher potential cases are resolved. It is possible for a statute to expire while a case is in the Queue.

The majority of expired statute cases involve cases which have been worked, but were classified as currently not collectible. These cases have little or no collection potential because the taxpayer cannot be located or does not have the financial resources to satisfy the tax debt. Further expenditure of resources on these cases is unproductive. If, however, the taxpayer files a refund return, any refund is automatically offset against an unpaid liability.

Of the $3.1 billion that expired in FY 1990, accounts determined to be currently not collectible accounted for $2.3 billion, or 92 percent. Delinquent accounts, including those that could not be worked, accounted for $110 million and $78 million came from deferred and other accounts.

The IRS plans to hire an additional 1,550 revenue officers in FY 1991. With this increase, we expect to close 17,000 additional accounts and collect an additional $64.3 million in revenue during FY 1991.

## II. Federal Agencies in the Accounts Receivable Inventory:

A. **At the end of February, how many Federal agencies were not current with employment tax remittances to the IRS?**

There were 676 individual delinquent federal entities representing 39 different federal agencies. The agencies involved represent a cross section of the federal community: large and small agencies, military and civilian, domestic and overseas.

B. **How many Federal agency accounts are there for which IRS has issued employer identification numbers (EINs)? Is it true that half of these numbers are inactive?**

As of January 31, 1990, there were 4,805 Federal entities on the Business Master File. Approximately half of these have no current filing requirements and are inactive. We began removing these accounts from our files in January, 1991.

C. **Back in June, IRS told the Subcommittee that it is not possible to tell the exact number of federal agencies involved because some agencies have more than one EIN. Further, IRS reported that "we do not know specific Federal agencies that are not current" and "we do not know of delinquent remittances in 1988 and 1989."**

1. **Since then, have you been able to determine who is included in the 676 accounts?**

   As of February 24, 1990, 39 different agencies were included in the 676 accounts.

2. **Which Federal agencies are involved and what is the total amount attributable to accounts under these agencies?**

   There was a total of $185 million due from the 39 agencies. Of that, $184.5 million was due from agencies that executed a Section 6103 waiver and they are listed below. The remaining $545,014 was due from 20 other agencies, mostly independent agencies and commissions for which we do not have waivers on file.

DELINQUENT FEDERAL AGENCIES (As of February 1990)

| | |
|---|---:|
| Agency for International Development | 11,543,125 |
| Agriculture | 409,697 |
| Commerce | 5,098,073 |
| Defense | 157,955,605 |
| Education | 1,408,005 |
| Energy | 518 |
| Environmental Protection Agency | 283,306 |
| GAO | 69,633 |
| Health and Human Services | 70,072 |
| Housing and Urban Development | 27,475 |
| Interior | 11,022 |
| Justice | 2,901,346 |
| Labor | 361,164 |
| OPM | 17,280 |
| State | 2,951,151 |
| Transportation | 2,507 |
| Treasury | 1,490 |
| USIA | 1,410,627 |
| Veteran's Administration | 4,754 |
| Sub-total | $184,526,850 |
| Due from agencies without waivers | $545,014 |
| Total Due from all agencies | $185,071,864 |

D. **How many Federal agency accounts are in the accounts receivable inventory as of September 30, 1990? Which agency is the largest and what is the amount involved?**

There were 643 delinquent federal agency accounts as of September 30, 1990. The largest single account was the Department of Health and Human Services for $20.7 million. This account had no balance due as of the end of December, 1990.

E. **Federal agencies do not pay penalties and interest due to a Comptroller General decision in 1978.**

1. **How has this affected Federal agencies' concern with filing returns and making deposits on time, and their interest in resolving delinquent accounts?**

   The majority of Federal agencies deposit (transfer funds to the Federal Reserve Banking System) timely. The interest in resolving delinquent accounts varies, but the process is normally time-consuming both for the agency and the IRS. The tracking of improperly designated or misdirected Federal agency tax deposits is time consuming due to the nature of the accounting and FTD processing systems now in use.

   As the Commissioner testified on October 18, 1990, we are exploring ways to increase Federal agency awareness of these problems. We believe increased management attention to tax obligations will improve compliance and are undertaking a six-point plan to improve compliance by Federal agencies. As part of this plan, we have written to Federal agencies that were delinquent in the past year reminding them of their employment tax responsibilities.

2. **How has this affected IRS's monitoring of these accounts?**

   Even though Federal agencies are not subject to penalties and interest, they must file and pay their taxes timely. They are still subject to the same delinquency checks that are conducted on all employers.

3. **Should Federal agencies pay interest?**

   We do not recommend that Federal agencies be charged penalties or interest. Interest is a "charge" levied on a taxpayer to compensate the Federal government for not having use of the money. In almost all of these cases, the government has the use of this money although it may not have been deposited to the correct account.

4. **There appear to be Federal EINs which involve nonappropriated funds. Is that correct? Do you monitor whether a Federal EIN should pay interest because it involves nonappropriated funds? Is that correct?**

   Appropriated and non-appropriated Federal entities are treated alike; neither are charged penalties or interest.

5. **Do state and local governments pay interest on delinquencies?**

   Yes, state and local governments are assessed penalties and interest.

F. **Of the 676 accounts, do you agree with GAO's finding that 63 accounts were in excess of $100,000 as of February 24, 1990?**

Yes.

G. **What was the total amount in the accounts receivable inventory attributable to these accounts?**

The 676 Federal agencies had balances due totalling $185 million. The amount due from the 63 highest dollar accounts was $178 million.

H. **When asked by the Subcommittee in February whether there had been a government agency that had not paid required employment taxes and had shown up in the accounts receivable inventory for over $100 million, the IRS twice responded "there is none now". Of the agencies included in the accounts receivable inventory in February, the largest assessment by agency was the Department of Defense with a $151 million total. Isn't that correct?**

Based on the way IRS monitors accounts in its accounts receivable inventory, there was no single account with a balance due of more than $100 million. The IRS does not track accounts by agency, but rather by the individual entity responsible for filing and paying taxes. The GAO reported correctly that, in the aggregate, the Department of Defense had outstanding balances totaling $151 million. This represented the total of balances due from 49 different Defense Department entities.

I. **What other agencies, according to IRS, have accounts that were in the accounts receivable inventory in February and what were the amounts for each of these agencies?**

See response to question II.C. above.

J. **One agency may have assessments shown for many quarters or a number of years. How many tax assessments are represented with these 63 agencies?**

There were 183 different tax periods associated with the 63 federal agencies.

K. **Of the tax assessments represented, 26 relate to 1982, 1983, and, 1984. It's the end of 1990. What is the statute of limitations for collection of these assessments?**

Prior to the passage of the Omnibus Budget Reconciliation Act of 1990, P. L. 101-508, the statutory period for collecting a delinquent tax liability was six years from the date of assessment; the statutory period is now ten years. The statutory period does not begin with the tax period or due date of the return, but with the assessment of the tax. For some accounts, assessments are made subsequent to the original determination of the tax due on the return. This is frequently the situation in cases where errors result in a mismatch of taxes shown on the return and taxes reported to the Social Security Administration. The assessment of the corrected amount takes place after the return is filed. Therefore, balances due for 1982 or 1983 taxes could arise after the original tax return was filed.

L. **For how many Federal agency cases has the statute of limitations expired? In which of the 63 accounts over $100,000 did the statute expire? How closely do you monitor the statute in Federal agency cases?**

According to our Master File records, fifty Federal agency accounts had the statute expire during the period January 1, 1990 through October 31, 1990. Thirty-five of the accounts had balances less than $1,000.

Of the remaining 15 cases: four were in currently-not-collectible status, three were awaiting the application of a missing payment, two were extended by signed waivers that did not post to the system, one was adjusted after the statute expired and, five are still being researched.

None of the accounts that expired were for more than $100,000, however, three were affiliated with the accounts on the list of 63 Federal agencies. All three were Department of Defense accounts. One account (Air Force) was below $25.00. Two other accounts involved adjustments that were pending when the statute expired. One account (Army) subsequently was satisfied by the adjustment. Investigation of the other account (Air Force) revealed that a payment had not been properly credited; we are presently trying to trace the original payment.

Generally, statutes are allowed to expire on cases that have been deferred, placed in the Queue so that higher priority cases can be worked, reported uncollectible or have adjustments pending that will fully resolve the balance. We closely monitor cases that remain in active inventory for potential statute problems.

M. **How many statute of limitations waivers has IRS requested from Federal agencies included in this list of 63 agencies? Has an agency ever refused to sign a waiver?**

We do not know how many times agencies were asked to extend a collection statute. We are aware of one case where local officials of a military installation would not sign a waiver. Subsequent investigation showed that credits were available on another account and these were transferred to satisfy the account.

**N. Of the different tax assessments shown in the 63 accounts that GAO reviewed, 79 related to taxes due for December 31 or the 4th quarter of the year. We are told that agencies redirect their resources to prepare W-2 statements for employees instead.**

1. **Are agencies failing to see the importance of timely remitting employment taxes and delaying until there is more free time later next year?**

   We do not have any experience which would indicate that agencies redirect resources to other payroll tasks instead of filing employment tax returns. One possible reason for more fourth quarter liabilities appearing on the list may be because we frequently make adjustments to fourth quarter returns. This is particularly true when there is a discrepancy between the amount of payroll taxes reported on the tax returns and that reported to the Social Security Administration on the annual return. When these discrepancies result in additional taxes due, we generally make the adjustment to the fourth quarter.

2. **What has IRS done to prevent agencies from following this illegal pattern again this year?**

   As the Commissioner outlined in his testimony, we have undertaken a six-point plan to improve compliance by Federal agencies. We are now developing specific actions to implement the overall plan. As part of this plan, we will write to Federal agencies that were delinquent in the past year, reminding them of their employment tax responsibilities. We also plan to communicate with heads of agencies about compliance problems within their agency.

O. **Of the tax periods shown in these 63 accounts, the number of assessments was the highest for the September, 1989 tax period when the President's sequestration order was in effect.**

1. **Was this delay in remitting taxes related to sequestration?**

   We do not believe that sequestration had any effect on these accounts. The large number of accounts from the third quarter is more likely due to the timing of the GAO's analysis. The third quarter returns were due October 31, 1990. After these returns were processed, balance due or missing FTD cases would have been identified in late December and early January and notices issued. We would expect that most of the balance due returns in the inventory in February would be for the third quarter (the one most recently processed) because they had not yet been subjected to the error resolution process.

2. **Were there any late payments from the September, 1989 quarter?**

   Yes, entities under the Departments of Justice and Defense made late payments.

3. **What penalties apply to an agency when employment taxes are converted for other uses?**

   There are no penalties which are asserted against government agencies for failure to timely or accurately report tax liabilities or to timely pay tax liabilities. We are not aware of any cases where withheld taxes were converted to another use.

P. **Do you regularly report to anyone, such as OMB, on the status of employment tax assessments against Federal agencies? What about when an irregularity occurs, for instance in the case of the 300% increase in Federal agency assessments during September, 1989?**

We do not report to any agency or branch of the government on the status of Federal agency accounts either individually or in the aggregate. Disclosures to a third party cannot be made without authorization from the agency involved. As part of our plan to improve compliance, we will explore using existing financial control systems, such as the reports required under the Federal Managers Financial Integrity Act, to increase management accountability for filing and paying taxes on time.

As we stated earlier, we believe the large apparent increase in the third quarter of 1989 has to do with the timing of the analysis.

**Q. At the earlier hearing, we were told by IRS that "Federal agencies only theoretically owe us money." After the hearing the IRS reported that "generally the money in the accounts receivable for Federal agencies is not due" and "in almost all of the accounts the money is not due."**

**1. According to IRS records, which agencies made a payment to the IRS since February to satisfy employment tax assessments that were in the accounts receivable inventory in February?**

The six agencies that made payments were:
- Defense
- Justice
- Agriculture
- EPA
- Agency for International Development
- State

**2. For each of these agencies, how late was the payment you received? Answer by agency below.**

**3. Did IRS timely notify each of these agencies of the assessment? Answer by agency below.**

**4. How soon after receipt of the notice did they pay? Answer by agency below.**

Defense - Eight different entities were involved. Some returns were timely filed, others were not. Notices were timely issued at the time the returns were assessed and when the additional assessments, if any, were made. Payments received were three and one-half months to one year and five months late.

Justice - One period was involved. The return was not timely filed. A notice was timely issued at the time the return posted. A payment was received four months and 23 days late.

Agriculture - The return was timely filed. A notice was timely issued at the time the return posted. A payment was received in March, 1990, one year and two months late.

EPA - Four periods were involved. The returns were all filed late. Notices were timely issued at the time the returns posted. The payments were all received in June, 1990, ranging from eleven months to one year and seven months late.

AID (State) - The return was timely filed. The notice was issued timely. The payment was received 12 months late.

State - Three tax periods were involved. The returns were all filed late. Additional assessments were made and notices were timely issued. The payments were 16 and 19 months late.

R. **The U.S. Information Agency had a balance due of $1.4 million for September, 1988, which was satisfied through a payment by USIA and a credit for a 1983 payment. In April, 1990--seven years later--the 1983 missing deposit was found.**

1. **How could a deposit be missing for this long?**

   The credit in the amount of $1,022,269.28 was manually transferred without a cross reference, making tracing this transaction difficult. We are researching our archives to locate the transfer document. When it is located we will be able to identify the source of the credit and determine why it was missing.

2. **What do you do to identify the location of a missing deposit to be certain that you have found the correct account for the deposit?**

   When a Federal Tax Deposit or other payment is missing (not posted to the tax period or return intended by the taxpayer) there are several methods available to trace the payment depending on the information available from the taxpayer. In the most difficult circumstances, we can trace a payment from the point that it entered the system in a bank completely through the system to determine where it was posted at IRS. In easier cases, we may be able to determine from numbers stamped on a check where a payment posted without other intervening research.

   Most cases of misapplied payments occur because the taxpayer inaccurately directs a payment to the wrong return type, period, or in some cases the wrong identifying number. IRS has developed systemic checks to reduce some incorrect posting, but we will always have some problems associated with the taxpayer, bank employees, or IRS employees making human errors.

S. **The IRS reportedly notified the U.S. Army Communications in Ft. Monmouth, NJ, about a $111,990 employment tax assessment in March, 1989. A payment from Army was not received by IRS until March, 1990. Why would it take one year for payment to be sent--no lost check was involved?**

Based on a analysis of the account it appears that two amended or duplicate returns were filed, thus creating a processing problem for that quarter. In addition, reconciliation of tax deposits to wages actually paid may have been conducted by the Army creating time delays. Correspondence between the service center, ACS, and field Collection staff would have consumed a year before the Army was satisfied there was a real balance due. In addition, the account transcript indicates a pattern of misapplication of deposits and transfers to other modules in the account.

T. **In May, the IRS sent a "Notice of Intent to Levy" to one of the Air National Guards. Other than this situation, has IRS ever sent out any levy notices to Federal agency taxpayers? Has IRS ever levied against any property of a Federal entity?**

We are not aware of any instances where the property of a Federal agency has been levied. Taxpayers identified as Federal agencies on our records would not ordinarily receive a computer generated "Notice of Intent to Levy" since we do not issue levies in these cases. However, if the account is not properly coded or if an IRS employee does not notice the special codes, a notice could be erroneously sent.

U. **What happens to an agency that shows an employment tax assessment because employees of the Treasury have stolen that agency's employment tax deposit checks? Is the agency considered delinquent or is this Treasury's responsibility?**

We believe it would be the Treasury's responsibility to see that funds delivered to them are credited as the Agency directs.

V. **The Accounting Office at Ft. Dix is having difficulty reconstructing payments to the IRS back in 1983 because the records are so old they have been destroyed. Is that your understanding of their problem? When did the IRS notify the taxpayer of the 1983 employment tax assessment? Will the statute expire or what will happen to the account?**

We agree. We first notified the U.S. Army, at Ft. Dix, N.J., of a liability on July 16, 1984. However, as the case progressed, two tax deposits were moved many times. Each transfer generated a balance due condition which generated additional notices on February 2, 1987, and November 28, 1988. At present, the collection statute is not in jeopardy, but this case points out the problem of reconciling records years later.

W. **There were several Federal agency cases assigned to a revenue officer at the beginning of 1989. These include cases involving the Department of the Air Force in Japan and Panama. The revenue officer was detailed to other assignments until March, 1990, so these cases sat unworked.**

**Would this be the case with delinquent tax deposit cases for individual taxpayers or corporations or only for Federal agencies? What happened, and why were these cases never reassigned?**

The revenue officer assigned to the DOD inventory was a participant in the Federal Agency Employment Tax Review Project and, during the early months of 1989, traveled with the review team to Germany to resolve the many outstanding U.S. Army and Air Force delinquent accounts in that area, and also made contact with Army's centralized payroll center in Heidelberg. Throughout the remainder of 1989 and into 1990, numerous management details and assignments and leave prevented the revenue officer from working full time on this inventory. Staff shortages prohibited assigning this inventory to another revenue officer. Experience has shown that a majority of these delinquent accounts do not represent actual dollars owed, but debit balances which are usually resolved by adjustment, credit transfer, or payment tracer actions. Consequently, available revenue officer resources were directed to those cases which were more likely to represent an actual balance owed.

X. **The Navy Exchange has a $354,000 delinquency. The IRS agent's fact sheet states that "the case has not been actively worked in the last 12 months". Why?**

The liability for the Navy Exchange, San Diego, involves a Combined Annual Wage Reconciliation (CAWR) adjustment which arose because of a discrepancy between the amount of tax reported on the taxpayer's return and reported to the Social Security Administration. Due to the age of the case, records are difficult to obtain. The case was not actively worked while awaiting information from the Navy and Social Security Administration to determine if the adjustment was appropriate.

## III. IRS's and Treasury's Own Employment Tax Assessments in the Accounts Receivable Inventory:

A. **IRS had an assessment against itself for employment taxes of $449 in the accounts receivable inventory in February.**

1. **When was the notice sent out and to whom?**

   Our records indicate that a notice was sent out on March 6, 1989 to our National Office Accounting Section in Washington, D.C.

2. **When was the first time the Commissioner was made aware of this?**

   The Accounting Section worked with a Revenue Officer from the Baltimore District in resolving this account. The Commissioner's office was not involved.

3. **Why wasn't this resolved?**

   We had been working with a Revenue Officer from the Baltimore District for several months to resolve problems with this account. There had been misapplied credits, and checks that had been issued for taxes had not been received by the Service Center. This required research and the issuance of substitute payments. Problems related to this account have now been resolved.

   We also worked with the Financial Management Services to ensure that proper and timely credit is given by the Federal Reserve Bank and the IRS Service Center. The National Office account is now current.

B. **What other accounts related to the Department of the Treasury have a balance due and for what years?**

Two Treasury accounts show a balance due. The Treasury Department has a balance due on a 1986 tax period of $650; Customs has a balance due on a 1984 tax period of $565.

C. **Describe the reasons that the Department itself maintains a balance due of $24,000, some of which relates back to 1986.**

We can locate only the accounts mentioned among the 676 federal agency accounts.

D. **GAO is listed on IRS's accounts receivable with assessments dating back to 1983.**

1. **IRS agent's fact sheets on the GAO cases indicate that the statute of limitations is expiring in less than one year on two of the unresolved tax periods; that there is no waiver; and, that it will be closed. Has the IRS requested that GAO sign a waiver of the statute for these periods? If not, why?**

   A waiver was not requested because the employee believed that the information needed to resolve the case was readily available and the case would be resolved prior to statute expiration.

2. **How many notices have been sent to GAO regarding these assessments and when were they sent?**

   A total of 21 notices were issued to GAO on 14 tax modules from 1983 to 1989. These notices were issued at the time the returns were assessed or when a credit was transferred from a tax period creating a balance due.

3. **A recent IRS agent fact sheet indicates that "GAO has a history of filing and/or paying taxes late." Will you explain?**

   Our records indicate that the GAO has not been careful making deposits and filing returns, marking the wrong identification number or period on the return. As a result, there were three separate return delinquency investigations assigned to our field office.

## IV. Late Filings of the Employers Quarterly Tax Return:

**A. According to IRS, what percentage of the returns included in the tax assessments involving the 63 Federal agencies were filed late?**

We agree with the General Accounting Office assessment that more than two-thirds of the 63 Federal entities with balances due had also filed their tax returns late. As the Commissioner testified, late filing is a serious problem throughout the government.

**B. What incentive is there for a Federal agency to file on time?**

Like any other taxpayer, a Federal agency has an obligation to file their returns accurately and pay their taxes on a time. Failure to do so creates unnecessary work for the agencies and the IRS; work that diverts resources from the agency's mission. We recognize the need to improve compliance by Federal agencies and, to that end, we reviewed employment tax compliance by a sample of agencies. As a result of our review, we are developing information that can be used by all agencies to improve compliance.

**C. How many late filing notices went out during the past fiscal year?**

During FY 1990, we issued over 3.6 million first notices on business return delinquency cases. We do not maintain information on how many of those notices were issued to Federal agencies.

**D. What percentage of all Federal agencies file the Form 941 on time each quarter?**

We have not specifically monitored Federal agency compliance with their filing requirements, but the analysis of agencies with balances due showed that a significant number did not file their returns on time. We are currently analyzing all Federal agency accounts to determine which agencies were delinquent in filing, depositing or paying payroll taxes during 1990. We will use this information to contact those agencies early this year.

**E. Are agencies accurately completing the Form 941? In your opinion, are agencies delegating the responsibility for employment tax payments and filings to qualified personnel?**

We believe that most agencies try to complete their tax returns accurately, but frequently do not revise their returns to reflect payroll adjustments made during the year. This leads to discrepancies between the information reported to IRS and the Social Security Administration. The grade structure for the technicians working with the Forms 941 is low - and training is almost nonexistent. The personnel frequently follow a previously filed form to determine how to deposit and file.

**F. How can the IRS increase the timely filing of the Form 941?**

The IRS has undertaken a plan to improve compliance by federal agencies. As part of this plan, specific steps are being taken to:

(1) Develop written guidelines for all agencies.

(2) Develop a seminar for federal agencies on employment tax issues.

(3) Update the Treasury Financial Manual to include more detailed employment tax procedures.

(4) Establish a point of contact in Service Centers for resolving Federal agency questions.

V. Federal Tax Deposit System:

A. **In making Federal deposits, an agency must forward to the Financial Management Service (FMS) its Federal tax deposit coupon with an authorization form indicating the amount of tax due. FMS cuts a check for that amount, attaches the coupon, and mails this to the Federal Reserve Bank (FRB). The FRB deposits the check and mails IRS the coupon with a receipt showing amounts deposited.**

1. **What problems result from this system?**

   Because of the extra steps involved in requesting a check from FMS, it is difficult for FTD credits to post to the agency's account on time. It is also difficult to trace missing payments, since a credit sent to the IRS, according to the agency's records, may not have reached us.

2. **Is there any way to trace a payment to a certain FTD coupon if the check and the coupon become separated?**

   Yes. The Federal Reserve Bank should have the amount of the check on their "Verification Listing" as a record of the deposit.

3. **Is there someone at the Federal Reserve Bank available to assist the IRS in locating missing payments? How does IRS go about locating a missing payment if the taxpayer sends proof of payment?**

   All Federal Reserve Banks as well as authorized Treasury Tax and Loan (TT&L) depositaries have someone assigned to assist the IRS in locating missing payments.

   After securing from the agency or taxpayer, the name and location of the bank where the FTD payment was made, that bank is requested by letter to provide specific information about the payment, i.e. Advice of Credit Number, total money amount, and deposit date. Once we receive this information, we begin tracing the payment by using a list that contains the microfilm serial numbers used by the bank.

4. **How can the Federal Tax Deposit System be improved?**

   We are exploring the use of electronic funds transfer for Federal employers. This should eliminate many of the problems associated with the Federal agency accounts.

B. **How does the system used by private employers differ?**

The primary difference is that federal agencies have an additional step to issuing a check for their tax deposits that private employers do not have. This additional step, having deposit coupons and checks issued in two different places, is a major cause of improper credits to federal accounts.

C. **Has IRS been working with officials at Treasury and FMS to improve upon the current system? If so, for how long, what have you recommended and what is the status of your efforts?**

We have been working with FMS on a Treasury approved redesign concept for an Electronic Federal Tax Deposit system since February 1989. Several studies are being conducted to consider the feasibility of moving payments to an electronic system and to identify the proof of payment method to be used in an electronic environment. The results of these studies will be considered in the TAXLINK prototype which is being designed and implemented in the Atlanta Service Center to test various means for receiving Federal Tax Deposits and other IRS payments electronically. We expect Phase I of the prototype to be completed in August 1991.

VI. Large Dollar Cases:

A. **According to GAO, collections from the large dollar cases since March have totalled only $40 million, while abatements and adjustments have totalled $2.5 billion.**

1. **Is this correct?**

2. **What is the total amount attributable to abatements?**

3. **How much of the amount is due to IRS error, and what are the errors? What is the longest that an IRS error has remained in the large dollar inventory undetected?**

4. **How much is attributable to adjustments and what type of adjustment is occurring.**

We do not have any reason to question the GAO analysis of the cases they reviewed. We have not subjected the same cases to the type of review performed by GAO.

We also could not determine the longest that an error went undetected, however, we know that some of these errors went undetected and unresolved for too long. Our large dollar listing procedures provide us with a method to identify errors and impose tight time frames for resolving them.

B. **Since May, 1987, the IRS has produced a large dollar listing that is provided to field offices weekly. Is that correct? How quickly are large dollar cases being resolved, on average?**

Since May 1987, the large dollar listings have been available for use by the field offices. Each field office can request new listings as frequently as necessary from information that is updated weekly. The offices can request listings of accounts by dollar levels of $100,000 or greater.

We do not track individual case results so we cannot compute average case dispositions. However, we do know that over 50% of cases are removed from the list within one year of when they first appear on the large dollar listings.

C. **Earlier this year, the subcommittee staff reviewed the cases in IRS's inventory with over $100 million in assessments and found clearly erroneous assessments i.e., a partnership penalty assessment of $250 million which assumes one million partners). Are all such gross errors in the large dollar case inventory (cases in excess of $1 million) gone today?**

The large dollar account procedures have been revised and amended during the last year. The new procedures will enable the accounts to be resolved expeditiously and to promptly identify systemic and procedural problems. Monitored accounts are required to be resolved within specified time frames. If those time frames cannot be met, the reasons must be documented and an action plan developed reflecting the amended time frames. Because of the complexity of the cases and the systems used to process the accounts, the resolution of errors is a never-ending task. New errors continue to be found. However, the revised large dollar procedures will identify such errors promptly and aid in their resolution.

D. **In one case GAO reviewed, more than of $150 million was lost because the statute of limitations expired. Describe that case. Why wouldn't this case have been moved to the currently-not-collectible inventory last September?**

We have not been able to identify the case in question. Cases are not moved into the currently not collectible inventory because the statute is about to expire.

E. **One of the cases that has continued to show up in the inventory is a fictitious filer with delinquencies dating back to 1988. What is the case about? Why would this case continue to appear in the large dollar inventory?**

This matter is the subject of an ongoing criminal investigation. It involves a person who has filed returns claiming fraudulent refunds. This person also files returns for fictitious companies claiming large numbers of employees and showing large amounts of tax due. As soon as these returns are identified, they are removed from the inventory.

F. **Is it true that in May, 1989 an IRS processing error caused an erroneous assessment of $26 million which appeared in the inventory for one year? Why wouldn't this have been detected earlier as part of the large dollar case review that has been ongoing?**

We processed a corporate income tax return that claimed a refund based on credits from other tax years. When processing the return, we debited the account for the refund amount ($26 million) and issued the refund. We did not, however, credit the account as we should, resulting in a debit balance. Consequently, the account began the normal sequence of notice processing and the notice was reviewed. Due to incorrect instructions, the notice was voided in the review process and subsequent notices were stopped halting further review of the case until an Accounts Receivable Group was established in the service center in July, 1990. The Accounts Receivable Group took action immediately to resolve this case by entering the appropriate credit.

The review by the Accounts Receivable group further identified the systemic problems that caused this account to go uncorrected. Revised training, quality review and, proper instructions have been provided to Notice Review tax examiners working the stop notice cases.

VII. Other IRS Issues:

A. **GAO recently submitted a report to the Subcommittee showing that between April 15 and May 7, 1990, two IRS service centers averaged 7 days to deposit about $6 billion in tax payments. GAO noted that the Federal Government could have earned $6.2 million in additional interest if these two service centers had deposited the payments of $5,000 or more within 24 hours.**

1. **Do you have any comment on this report?**

   We generally agree with the report's recommendation that IRS assess various options to reduce the time it takes to deposit large tax payments. The recommendation is already being explored in conjunction with our cash management initiatives under Tax Systems Modernization. Specifically, our Check Handling Enhancements and Expert Systems (CHEXS) will introduce high-speed check processing image equipment in IRS service centers, eliminating most manual check processing activities. One of the possible approaches suggested by GAO, to develop a voucher system and have taxpayers mail remittances and vouchers to a different mailbox than the return, appears to offer the most plausible method for accelerating paper deposits. This approach will be part of CHEXS, which is scheduled for implementation in 1993.

2. **What is IRS doing to isolate large payments in order to deposit them more quickly during the next filing season?**

   For the upcoming filing season, IRS will follow current procedures to expedite the deposit of checks of $10,000 or more within 24 hours. Because of the development of CHEXS, we do not think it is feasible or cost-beneficial to develop another system to implement the GAO recommendations before 1993.

B. **There have been various plans, some proposed by Members of Congress, to deal with the accounts receivable inventory:**

1. **One proposal, in general, would allow for collection of the accounts receivable inventory by state/local revenue officers. That proposal was forwarded to you for comment over six months, and yet no response has been received. Do you support this type of proposal? What are your concerns? What variations on this type of proposal would you support?**

   The IRS has recently given serious consideration to this idea and while we have some reservations about the specific proposal, we do want to encourage Federal-State cooperation in solving tax administration problems. For that reason, we will discuss the proposal at our next meeting with State Tax Administrators.

   Some permutations of this proposal may be feasible. For example, it might be possible to work out agreements under which a state would collect both Federal and state liabilities at the same time where a taxpayer has a liability for both taxes (FUTA is one example). Similarly, the IRS could collect both taxes at the same time. However, there are a number of issues that would have to be addressed either statutorily or administratively before this process could be effected, including the following:

   Disclosure: Section 6103 might have to be amended to resolve problems of limitations on states to make investigative disclosures of information received from federal tax files, and to clarify the restrictions and limitations of that section as they would be applicable to collection situations.

   Jurisdiction: Under some proposals, the assigned tax agency (state or Federal) would examine both the state and Federal returns and make appropriate adjustments. Who, however, gives the taxpayer notice of the deficiency? What court has jurisdiction to hear an appeal? Would the case have to be split after audit but before appeal?

   Coordination: The fifty states have widely differing rules of procedure and litigating policies, which also may differ from those applied by the IRS. These differences might lead to significant differences in how taxpayers with similar tax debts are treated in different parts of the country. Would the Taxpayer Bill of Rights apply to federal tax debts being collected by a state tax agency? If so, from whom would the taxpayer collect administrative and/or litigation costs under section 7430, the State or the Federal Government?

   These are just some of the issues which would have to be addressed in crafting this type of proposal. Depending upon the specifics of any proposal, other issues might easily surface. In any event, we do believe that any transfer of collection authority for federal taxes to the states would require legislation, and could not be done administratively.

2. **One proposal deals with increasing IRS resources and a one-time waiver of civil/criminal penalties. Do you support this type of proposal? What aspects of this type of proposal do you support and what concerns are raised?**

   For a number of years IRS has consistently held the view that a general tax amnesty would be ill-advised and counterproductive. However, we continue to review areas of non-compliance. It is possible that targeted penalty relief, as an adjunct of a broad-based, long-term strategy to improve tax administration may be a viable option.

3. **What about the use of private collection agencies for portions or all of the accounts receivable inventory? Has IRS considered contracting out collection activity and, if so, what are your findings? What taxpayer-rights safeguards would need to be included and how would IRS monitor private collection activities?**

   Proposals to contract out tax collection activity to private individuals/companies have been considered in the past. After due consideration, those initiatives were opposed by Treasury, the Office of Management and Budget (OMB), and the Internal Revenue Service (IRS) on policy grounds. We feel that contracting out tax collection would undermine public confidence in the integrity and impartiality of the federal tax system.

   Additionally, the collection of taxes is clearly a fundamental governmental function which the OMB has concluded should not be contracted out. Problems with safeguarding taxpayer rights include disclosure problems as well as inappropriate or illegal actions taken by the contractors, for which the Federal government would be responsible. Nonetheless, we are studying whether we could contract out some support activities, such as locating taxpayers and their assets.

C. **It has been reported that the IRS failed to sign the Form 23C which is necessary to validate assessments made by the IRS. It has been reported that one invalid Form 23C was attached to 256,000 items totalling $2.6 billion.**

1. **Is it true the Form 23C, which is necessary to validate IRS assessments, has been improperly completed on occasion? Further, is it true that one invalid Form 23C covered hundreds of thousands of assessments totalling billions of dollars?**

   The signature was omitted from the Summary Record of Assessments (Form 23C) on thirty-one occasions during the period 1983 - 1988. We considered this oversight to be an administrative error in complying with Section 301.6203-1 of the Regulations on Procedure and Administration. These were subsequently signed protecting those assessments for which the statute for assessment had not expired.

   The documents in question include approximately 500,000 assessments totalling $8 billion dollars. One document, in particular, included 154,843 assessments and totalled $2,912,309,960.24.

2. **Why did this happen? How many times has this happened before? Don't you review all of these forms?**

   This happened because it is a manual procedure and the documents were inadvertently overlooked by various assessment officers. This has happened on 31 occasions. Controls were established in 1987, immediately after these documents were discovered, to add additional review procedures for validating the assessment officer's signature.

3. **What is the total amount of the assessments covered by improperly completed Forms 23C?**

   The total amount of the assessments covered by the 31 improperly completed Forms 23C came to $7.964 billion.

4. **How much of the accounts receivable inventory is attributable to this type of invalid assessment?**

   Most of the assessments were actually validated before the statute for assessment had expired. Of the 822 assessments requiring abatement action, 714 transactions have, thus far, been abated and total $2.8 million. We do not have a total on the remaining 108 transactions since the accounts are under analysis and the abatement action has not been completed.

5. **What is the IRS doing in these cases?**

   Based on our Chief Counsel's opinion, we took the following steps:

   1. Took no further action on settled (full paid) accounts.

2. For accounts in balance due status, assessments will be abated for those in which the assessment statute had expired when the Form 23C was actually signed. Payments made within the two-year statutory period for claiming credits will be refunded.

3. For balance due cases in which the statute was open when the Form 23C was actually signed, the originally scheduled 23C date will be corrected to reflect the date the 23C was actually signed. Additionally, notice and demand will be reissued for the balance.

4. The affected 23C certificates will be modified to have the originally scheduled dates changed to reflect the date they were signed.

Instructions to the field to implement steps 1, 2, and 4, were issued in April, 1990. Additional instructions for rescheduling the 23C date were issued in December, 1990.

D. **According to a recent newspaper article, a tax-exempt foundation in the Washington, D.C. area is spending $2 million for a rooftop meeting room which would be encircled by a running track and exercise facility.**

1. **Can a tax-exempt organization spend millions on luxuries?**

2. **Should we change applicable tax laws in some way to prevent this kind of spending?**

3. **In examination of tax exempt organizations, how often does the IRS find that corporate officers are paying themselves too much for the work they do?**

There are two possible answers, depending on whether the charity is a "public charity" or a "private foundation". The Internal Revenue Code places a strict regimen on private foundations and imposes excise taxes and penalties if the assets of a private foundation are diverted from charitable purposes.

If a charity is a private foundation, only that portion of administrative expenses paid to accomplish charitable purposes that are reasonable and necessary can be treated as a qualifying distribution for purposes of meeting minimum payout requirements of Section 4942. The question of reasonable and necessary versus excessive is determined by examination of all the facts and circumstances. Should a foundation make improper noncharitable expenditures, we believe existing law is both adequate and effective to deal with abuses. Our studies of private foundations show that compensation abuses occur only infrequently.

If the charity is not a private foundation, however, the only sanction available to correct this sort of abuse is revocation of tax-exempt status. This puts us into an awkward enforcement position, since the remedy punishes the charitable organization even though the abuse may be the result of an individual's actions; actions that hurt the charity as well as the public.

We do not know how often abuses occur in this area. In contrast to private foundations, the law in this area is more difficult to administer and the IRS is not always effective in curbing and correcting these abuses.

4. **Are there tax-exempt organizations in the accounts receivable inventory? What are the issues involved in these deficiencies?**

5. **Are the organizations in the accounts receivable inventory because they did not pay unrelated business income tax?**

As of September 30, 1990, there were 96,000 accounts relating to 56,458 tax-exempt organizations with balances due totalling $596.4 million. Only a small portion (less than 10%) was related to unrelated business income tax. The majority of the accounts are for employment taxes.

E. **The Subcommittee on Oversight has identified specific areas of noncompliance which contribute significantly to the growing tax gap. The Subcommittee is trying to develop a strategy with specific recommendations for closing the tax gap and enhancing overall taxpayer compliance.**

1. **What specific proposals are Treasury and IRS prepared to support to deal with "pockets" of taxpayer noncompliance? For instance, to what extent can compliance be improved if the following issues were addressed?**

   a. **Independent Contractors/Section 530**

   b. **Extension of information Reporting**

   c. **Extension of Withholding**

   d. **Improved Identification and Notification Regarding Non-payment of Employment Taxes**

   e. **Eliminating Recurring Corporate Tax Issues**

   f. **Taxpayer Education/Assistance Programs**

   We are studying both administrative and legislative approaches to address these areas, all of which are important to improving compliance. As part of our Compliance 2000 effort, we are drafting a plan to identify and address pockets of non-compliance.

2. **In November 1989, the Subcommittee on Oversight requested information on IRS's "Compliance 2000", a strategic initiative created in April, 1988 to enhance revenue and close the tax gap through enforcement and assistance programs. The Subcommittee has received very little information about this project despite repeated requests.**

   a. **Where is the final report?**

   b. **When will it be ready?**

   c. **Why is it taking so long to complete a project that was initiated more than 2 1/2 years ago?**

   Compliance 2000 represents an approach to compliance activities that attempts to build a philosophy of enforcement efforts that maximizes voluntary compliance while minimizing taxpayer burden and costs to the government. Central to this philosophy is identifying groups of taxpayers that share characteristics relevant to tax compliance and administration.

   We have completed our internal review of the report and final revisions should be completed shortly. We will send the report to the Subcommittee under separate cover.

3. **The IRS testified on April 19, 1990, that the agency was planning to publish reports on the illegal-sector income tax gap and the employment and excise tax gap later this year. It has been six months and the reports are nowhere to be found.**

   a. **Where are the reports on the illegal-sector tax gap and the employment and excise tax gap?**

   b. **What is taking so long?**

   c. **Can you give any preliminary estimates on the size of the employment tax gap? How about the illegal sector tax gap?**

   d. **When can the Subcommittee expect to receive final reports?**

   We are nearing completion of the tax gap reports. The illegal-sector and employment tax gap estimates will be published as a combined report in the Tax Compliance Research series. The estimation of these gaps has been completed and a draft report is almost finished. We expect that review and revisions to this report will take two to three months and that the report will be released on June 30, 1991. Although we have completed the estimation of these gaps, we do not plan to release preliminary estimates. We will be happy to provide you with the final report as soon as it is available.

   It is proving to be extremely difficult, and may well be impossible, to estimate the Federal excise tax gap. A paper on the difficulties in estimating the excise tax gap is being reviewed. We expect the review process to take two to three months and will provide you with the paper when the review is complete.

4. **The IRS estimates that $10.335 billion was lost for tax years 1984-89 due to misclassification of workers as independent contractors. Specifically, for tax years 1989, the IRS estimates the revenue loss due to misclassification to be $1.886 billion, of which $146 million is directly attributable to section 530 of the Revenue Act of 1978.**

   a. **Is it possible to definitively address the independent contractor issue?**

   The General Accounting Office has proposed a system of matching information returns for independent contractors receiving more than $10,000 from a single employer with the income reported on the contractor's tax return. Collection, based on this proposal, is implementing a compliance program for individuals. We will issue leads to our field offices in February, 1991 for analysis. New leads will be generated in subsequent years, with criteria adjusted according to the findings of the previous year.

IRS is continuing to explore other systematic approaches to identifying employers who have misclassified workers. During Fiscal Year 1990 a study on the decrease in 941 wages and the increase in Forms 1099 was conducted. A large percentage of misclassifying employers, however, are small to medium size businesses. They are not otherwise required to issue Forms 1099 and have no established filing requirement. Such employers are discovered solely through third-party leads.

Collection is active in speaking engagements and involved in training sessions for professional organizations and state and local governments. We are attempting to address the misclassification issue through broad coverage of all industries, while focusing on the most significant cases within a geographical area and industry.

With this limited coverage, the IRS is attempting to resolve dichotomies created by Section 530 of the Revenue Act of 1978 which created a class of employers who are exempt from the common law. It places compliant employers at a competitive disadvantage in relation to those employers who misclassify their workers. For example, a new business venture started in Arizona to mine gold and silver can treat its employees as independent contractors claiming an industry practice as confirmed by court decision. Established companies are excluded from this advantage by the provisions of Section 530.

b. **What difficulties would the Subcommittee face in trying to resolve problems associated with the misclassification of workers?**

As we noted, much of the misclassification occurs at small to medium businesses. It is difficult to design compliance programs that reach into this part of the business community. Also, short of repeal or modification of Section 530, we cannot foresee a legislative approach that would equitably address the complexities of classification questions.

c. **What impact does misclassification have on the economy? To what extent is the problem growing?**

The impact of misclassification on the economy (if any) would arise from inequitable tax treatment of the two statuses. Assessing the effect, however, is complicated, and we know of no studies that have addressed this particular question.

We gave conducted only one study in this area which examined tax year 1984 compliance. In order to determine whether the problem is growing we would need to do another study and compare tne study's results to the tax year 1984 results.

d. **What is the risk to the employee who is misclassified? The employer?**

If these individuals are unaware that the responsibility of prepaying taxes rests not with the employer but with themselves, they might be subject to various tax-related penalties because they failed to make estimated tax payments and may end up with a tax bill that they are unable to pay. Further, these individual may be unaware that they are not eligible for certain benefits, such as unemployment insurance, and therefore may not set aside resources for such an event.

The risk to the employer depends upon whether the employer is eligible for relief under Section 530 of the Revenue Act of 1978. There is essentially no risk for employers eligible for relief under Section 530. These employers must file all required Forms 1099 and may be liable for state unemployment insurance taxes. Employers who are not eligible for relief under Section 530 are liable for back taxes, penalties, and interest as determined under Section 3509 of the Internal Revenue Code.

e. **What specific proposals has the IRS developed for resolving this question?**

As we mentioned above, we are studying various approaches to address this question. As part of our Compliance 2000 effort, we are drafting a plan to identify and address pockets of non-compliance.

## VIII. OTHER ISSUES RAISED AT THE HEARING

### A. Response to issues raised by Mr. Tucker

We agree that all taxpayer payments should be applied where the taxpayer designates and it is our policy to notify the taxpayer whenever we cannot determine the proper account to credit, for example, when an FTD coupon is not properly filled out. We give the taxpayer an opportunity to direct where the credit should be applied. In cases where our system moves a credit, for example, when an overpayment is applied against a balance due, we advise the taxpayer of the action taken. All balance due notices identify the period and tax return for which the notice is issued.

### B. Response to issues raised by Mr. Maupin

All federal agency cases are expedited through the notice process, receiving two notices from the service center before being assigned for personal contact. Our records indicate that, subsequent to these systemic notices, there have been two additional letters, seven phone calls and a personal visit. The Department of Commerce telephoned five times and wrote two letters. The district office has made resolution of this case a top priority.

Chairman **Pickle**. The Chair would ask Gary Maupin, Alvin Tucker, and Stanley Silverman to come up to the witness table. Our first witness is Gary Maupin, Director of Financial Management, representing the U.S. Department of Commerce.

Then we will hear from Alvin Tucker, the Deputy Comptroller for Management Systems, U.S. Department of Defense.

Then we will hear from Stanley Silverman, Comptroller of the U.S. Information Agency.

Each of you gentlemen are comptrollers. You have a great deal to do with the continued running of Government. We wish you well.

Mr. **Tucker**. We wish you well, sir.

Chairman **Pickle**. I'd better not comment.

All right. First, Mr. Maupin, if you would proceed.

I want to say to each of you that your entire statement will be made a part of the record. We are not going to be able to have an expansive hearing, but we may well have you back. If you will, just condense your statement.

## STATEMENT OF GARY T. MAUPIN, DIRECTOR, FINANCIAL MANAGEMENT, U.S. DEPARTMENT OF COMMERCE

Mr. **Maupin**. Mr. Chairman, my statement is fairly short.

I am the new Director for Financial Management for the Department of Commerce, and I appreciate the opportunity to appear before you today.

Chairman **Pickle**. You are not speaking into the microphone.

Mr. **Maupin**. I am the new Director for Financial Management for the Department of Commerce, and I appreciate the opportunity to appear before you today to address Federal employment tax assessments against Federal agencies.

The wages of the Department of Commerce employees are currently paid from four different payroll organizations: First, the U.S. Department of Agriculture payroll system located at their National Finance Center in New Orleans, La.; the U.S. Coast Guard Pay and Personnel Centers located in Topeka, Kans.; the U.S. Census payroll; and the U.S. Department of State overseas payroll system.

In 1985, the Department began transferring its payroll function to the Department of Agriculture's National Finance Center. This transfer was completed in 1986. Today, this system pays the vast majority of all Commerce employees. The only payroll functions that were not transferred at that time were those related to payment of the National Oceanic and Atmospheric Administration's (NOAA) Commissioned Corps, the payment of certain International Trade Administration (ITA) overseas employees, paid by the Department of State, as well as payment of certain temporary employees paid by Census to perform the decennial census and other ongoing current surveys that they perform.

The Department of Commerce believes that the timely remittance of employment taxes is very important. We have contacted the Department of Agriculture's National Finance Center, the U.S. Coast Guard's uniform services payroll organization, the U.S. Department of State, and our Bureau of the Census payroll office to determine if remittance of employment taxes was and is being made when due. It is my understanding that these payments are and were being made on a timely basis. In the case of questioned items from IRS records that were provided by your staff, we believe that we appropriately remitted the payments at the time due and have provided supporting documentation and information to IRS. If I find through further examination that any problems do exist, I will take prompt action to seek immediate remedies. Again, the Department believes, as you do, that this is an important matter and that any delinquencies by Federal agencies should be resolved as quickly as possible.

Thank you for the opportunity to testify before this subcommittee.

Chairman PICKLE. We thank you.

Now Mr. Tucker.

## STATEMENT OF ALVIN TUCKER, DEPUTY COMPTROLLER FOR MANAGEMENT SYSTEMS, U.S. DEPARTMENT OF DEFENSE

Mr. TUCKER. I will just begin at the meat of my statement, Mr. Chairman, and submit the rest for the record. DOD has approximately 600 tax reporting entities that currently deposit tax payments to the IRS in excess of $10 billion annually. DOD provides payroll services for approximately 2 million active duty service members, 1 million reservists, 1 million military retired pay accounts, and 1 million civilian employees in the continental United States and overseas. The tax reporting entity for civilian-appropriated fund employees is usually the military base that provides payroll services. While the majority of nonappropriated fund employees are paid from a central office, the tax reporting entities are frequently retail activities such as base exchanges. Taxes for military personnel are paid from central payroll offices, but there is an exception for reserve members performing active duty for training. Their taxes are withheld and reported by the military base where the active duty for training is performed. Because the military pay systems are primarily centralized, our current problems with unreconciled tax deposits are mostly associated with civilian pay operations.

In 1988, DOD undertook a comprehensive review with the IRS of all known major tax assessments. After exhaustive efforts, DOD tax payments, with few exceptions, were reconciled to IRS receivables. In most cases, some administrative errors were involved. Typical examples of such errors are the application of a payment to the wrong taxpayer identification number, payments to the wrong Federal Reserve bank, the submission of inaccurate information with a payment or payments lost in transit.

Mr. Chairman, of the $150 million that the Department of Treasury identified as receivable from DOD on February 20, 1990, normal reconciliation procedures have resolved $102 million, and we continue to work closely with the IRS in reconciling remaining balances. In addition, DOD is undertaking current management initiatives that will significantly reduce the number of tax reporting entities through the consolidation of payroll activities. For instance, we are developing new standard accounting systems through a program we call corporate information management. In addition, DOD is beginning to consolidate financing and accounting centers under a new Defense Financial Services Center organization.

Given the depth and breadth of tax payments from the Department of Defense, we recognize that some errors will occur. However, as I indicated earlier, we do intend to continue working with the IRS in order to resolve the current reconciliation problems, and to minimize future problems.

We do have one suggestion that we believe would help resolve future tax payment discrepancies faster and more efficiently. It concerns the IRS practice of sometimes applying a tax payment to any prior period deficiencies identified in IRS records without consultation with the taxpayer. This practice forces the taxpayer to undertake an enormous historical document search to produce proof of payment when all that might be needed is proof of payment on a single transaction. We recommend that IRS apply all payments in accordance with the tax period designation on the tax deposit coupon. We further recommend that any IRS notices of deficiency refer to that specific tax period and the amount in dispute.

That ends my statement, Mr. Chairman.

[The statement of Alvin Tucker follows:]

## STATEMENT OF ALVIN TUCKER, DEPUTY COMPTROLLER, MANAGEMENT SYSTEMS, DEPARTMENT OF DEFENSE

Mr. Chairman, Members of the Committee:

I appreciate the opportunity to discuss with you today the subject of Federal employment tax assessments against Federal agencies.

The Department of Defense (DoD) follows the tax withholding and payment procedures prescribed in the Treasury Financial Manual. We have augmented the Treasury procedures in the Department of Defense Accounting Manual. These procedures include instructions for both the withholding and payment of Federal employment taxes. Federal tax withholdings are deposited in Federal Reserve banks at the time each payroll is made. A Federal tax deposit form is used that identifies the payroll entity, the amount of tax paid and the tax period for which the payment is made.

The amounts withheld from the compensation of employees and service members are recorded each pay period in the permanent payroll records maintained for each employee or service member. The total amount withheld is also scheduled on a payroll voucher and a check is issued to the Internal Revenue Service (IRS) that includes the total taxes withheld plus the Government's share of the tax liability.

DoD has approximately 600 tax reporting entities that currently deposit in excess of $10 billion annually. DoD provides payroll services for approximately 2 million active duty service members, 1 million reservists, 1 million military retired pay accounts and 1 million civilian employees in the continental United States and overseas. The tax reporting entity for civilian appropriated fund employees is usually the military base that provides payroll services. While the majority of nonappropriated fund employees are paid from a central office, the tax reporting entities are frequently retail activities such as Base Exchanges. Taxes for military personnel are paid from four central payroll offices. There is an exception for Reserve members performing active duty for training; their taxes are withheld and reported by the military base where the active duty for training is performed. Because the Military pay systems are primarily centralized, our current problems with unreconciled tax deposits are almost solely associated with civilian pay operations.

In 1988, DoD undertook a comprehensive review with the IRS of all known major tax assessments. After exhaustive efforts, DoD tax payments, with few exceptions, were reconciled to IRS receivables. In most instances, some administrative errors were involved. Typical examples of administrative errors are: the application of a payment to the wrong taxpayer identification number, payments to the wrong Federal Reserve bank, the submission of inadequate information with the payment, or payments lost in transit. Mr. Chairman, of the $152 million that the Department of the Treasury identified as receivables from DoD on February 20, 1990, normal reconciliation procedures have resolved $102 million and we continue to work closely with the IRS in reconciling the remaining balances. In addition, DoD is undertaking current management initiatives that will significantly reduce the number of DoD tax reporting entities through the consolidation of DoD payroll activities. For instance, we are developing new standard accounting systems through a program we call Corporate Information Management. In addition, DoD is beginning to consolidate finance and accounting centers under a new Defense Financial Services Center organization.

Given the depth and breadth of tax payments, we think it is reasonable to expect that some errors will occur. However, as I indicated earlier, we do intend to continue working with the IRS in order to resolve the current reconciliation problems and hopefully minimize future problems.

We have one recommendation that we believe would help resolve future tax payment discrepancies faster and more efficiently. It concerns the IRS practice of applying a tax payment to any prior period deficiencies identified in IRS records without consultation with the taxpayer. This practice forces a taxpayer to undertake an enormous historical document search to produce proof of payment when all that is needed is proof of payment on a single transaction. We recommend that IRS apply all payments in accordance with the tax period designation on the Federal Tax Deposit Coupon. We further recommend that any IRS notices of deficiency refer to the specific tax period and amount in dispute.

Mr. Chairman, I hope that my comments today have clarified the position of the Department of Defense concerning Federal employment tax assessments. We take pride in our compliance with all existing regulations concerning the deposit of employment taxes. We are prepared to work with the Congress and the Department of the Treasury to further improve the tax depositary procedures applied to Federal agencies.

Mr. Chairman, this concludes my prepared statement. I will be pleased to take your questions.

Chairman **Pickle**. Thank you, Mr. Tucker.

Now, Mr. Silverman.

## STATEMENT OF STANLEY M. SILVERMAN, DIRECTOR, OFFICE OF THE COMPTROLLER, U.S. INFORMATION AGENCY

Mr. **Silverman**. Yes, sir, Mr. Chairman. Thank you for this opportunity.

Each pay period in the U.S. Information Agency, which is small certainly by Defense Department and Department of Commerce standards, we process a check through the Treasury to IRS to cover the withheld taxes of our employees. And therein, I think, lies the problem, at least as far as we are concerned, because the checks have gone awry on occasion as previous testimony has indicated.

We cover all of our employees that are in the United States—the Voice of America is our largest element. Some 4,000 employees of the U.S. Information Agency are in the United States. The rest are abroad, and they are paid by the State Department.

On two occasions within the past 8 years, IRS has indicated that they had not received a given biweekly check of our remittance, although each check had, in fact, been issued.

On both occasions, we acted promptly when we were notified, and we have resolved the matters, although at times they have become a little complicated.

We take seriously this requirement that taxes are to be remitted promptly and that any discrepancies, real or apparent, should be resolved quickly.

Thank you, Mr. Chairman.

Chairman **Pickle**. Well, thank you.

Mr. Maupin, I guess I will start with you and ask you to describe why over the past 7 years Commerce has had a delinquency in the accounts receivable inventory of $4.8 million?

Mr. **Maupin**. The delinquency, as I understand it, is a clerical error. The IRS does not believe we owe taxes, nor do we. We were asked for information by IRS. We provided that information, held a meeting with them, and it was our understanding that that issue is essentially resolved.

If it isn't, we will take action to resolve it.

Chairman **Pickle**. You may question whether you did or you didn't owe it. How many notices did the Internal Revenue Service send to Commerce about the delinquency?

Mr. **Maupin**. They sent us, I believe, two official notices. We responded to those, and then they held a meeting with us. So three contacts by the IRS, as far as I know. There may have been more phone conversations.

Chairman **Pickle**. You mean they only sent you two notices over a period of, say, 7-years?

Mr. **Maupin**. Yes, sir. That is all I know about; yes, sir.

Chairman **Pickle**. They only sent you two notices and you are $4.8 million behind. Then, would you say that the IRS is not up to date with their billings, if there was that much money in a delinquency and IRS only sent you two notices in 7 years?

Mr. **Maupin**. I assume this is a clerical processing issue for the IRS. I cannot answer for them.

Chairman **Pickle**. Why did it take that long for Commerce to get up to date on your payments?

Mr. **Maupin**. Our payment, we believe, has been made. We were unaware that there was any issue with any potential delinquency which we understand———

Chairman **Pickle**. Lack of communication between you and IRS, essentially?

Mr. **Maupin**. Yes, as far as we had provided all tax information to the IRS, we did not hear about any problem from them.

Chairman **Pickle**. I don't know the facts of this case, on a year-by-year basis, except that we are told that you had been treated as off the books long before you made a settlement. Seven years. That is what you call a 7-year itch that is not very acceptable, is it?

Mr. **Maupin**. No, sir.

Chairman **Pickle**. We need to know why that is happening. If it is happening in your case, I have a feeling there is an ongoing unsolving process in all these other Federal agencies.

Now, Mr. Tucker, I had asked a question of Mr. Goldberg earlier about the Department of Defense with respect to the Air Force in Japan where the Air Force had a balance due of $150,000. Apparently the IRS was sent a check by the Air Force in 1985 and it was applied to a 1980 tax liability; is that correct?

Mr. **Tucker**. Yes, sir, that is correct, according to the information we have, also.

Chairman **Pickle**. And they did that to keep the statute of limitations from running?

Mr. **Tucker**. I don't know why they did it, but they didn't tell us that they did it at the time.

Chairman **Pickle**. You knew it?

Mr. **Tucker**. No, we didn't know it at the time, sir. What we knew was we had a notice of a deficiency, and when we worked the reconciliation back in 1988 with the IRS, we provided them documentation on all of our 1985 payments that reconciled.

We have not heard further from them.

Chairman **Pickle**. Has any statute of limitations been applied to this account as far as the Department of Defense is aware?

Mr. **Tucker**. Not that I know of, sir, and I am sure that the Department would not hide behind the statute of limitations if we owe taxes, sir.

Chairman **Pickle**. Well, I am sure Mr. Maupin agrees, and I am sure Mr. Silverman agrees. If an expiration is being prepared and announced almost momentarily, you would be surprised then; wouldn't you?

Mr. **Tucker**. If a statute of limitations, sir?

Chairman **Pickle**. Yes. If we are going to hear a report that the statute of limitations actually has expired in some of these cases, you would be surprised if that is the case?

Mr. **Tucker**. I would be surprised, and I would like more information on whether this 1980 payment was applied to us, because we do keep these records for 50 years. But if we can get the information, we will go back to that point and try to reconcile back to this.

We reconcile back to the 1985 deficiencies we were notified about.

Chairman **Pickle**. Well, Mr. Tucker, the Defense Department has huge establishments all over the world, thousands, and it's always difficult to know who is in arrears and who is up to date. It is difficult to administer.

But we have shown on this chart here that over the period of time of GAO studies that Defense had a total of $151 million in arrears in payments.

Assuming that is an accurate figure for this particular time, is that typical on a yearly annual basis? Do you have percentagewise about the same ongoing accounts receivable and lack of payments?

Mr. **Tucker**. I don't know the answer to that, sir, because we don't get notified here in Washington by the Treasury Department or the IRS about what the balance is each year of the receivables.

They deal at the district level with each of our individual military payment centers, and they are working the problem at that level.

So we don't get any information on it, sir.

Chairman **Pickle**. Our staff is going to take a look at those figures from the time that we have had GAO's accounting and a year from now. We are going to look at you again to compare it with past years.

I want to know is this an ongoing, rolling-on type of a problem, and if something can be done about it?

Mr. **Tucker**. I assume, sir, that there are always reconciliation problems in the volume of transactions that are transmitting between ourselves, our far-flung military bases and the IRS.

And so the problem, as Mr. Goldberg said, is getting, jumping on that reconciliation process early to find out what the errors are in their view, and then our view of those errors, and trying to get it done.

Right now, I think they have been doing it through the mails, and it is taking a while.

Chairman **Pickle**. I don't think that you or Mr. Maupin or Mr. Silverman are asking for any special favors, but the Government cannot extend to you any more consideration than they can to the average taxpayers with respect to the payment of Social Security or FICA taxes.

If anything, you ought to be above Caesar's wife. You have just got to be there, the firstest with the mostest, so they know that you are living up to it.

If you are not, and you are protected with no interests and penalties imposed, it seems to me that many people would lose sight. I am not trying to lecture this morning, but I am saying to you that, with respect to accounts receivable, people aren't paying their taxes and with respect to the tax gap, people are dealing under the table. Those two factors pose a serious problem for us in this country on a voluntary tax.

If we don't really collect the money that is due the Government by allowing businesses or corporations to slide or to let the statute of limitations run out so they do not pay their FICA taxes, then people are going to lose confidence and they, therefore, are going to be attempting to cut corners themselves.

That does great damage to our entire voluntary system. So I say these hearings are important. It is not that we are trying to sensationalize any one aspect, but, the fact of the matter is, how we carry out our collections, both assessments and collections, and how we stop the underground economy subterfuge from continuing, is genuinely important to our system.

We will be continually looking into this now. The IRS tells us that they are going to have a specific plan to put in force. We are going to also see that you have got a plan to put forth to collect these taxes when they are due and submit them on time.

I think we have a right for the public to know what is happening. So I say to you and to the members of the subcommittee, and to the Congress, that we are going to continue these type of hearings to see what progress has been made.

So, sometime early next spring, we are going to take another look at the accounts receivable picture and see what we have done. I hope we will have done better, because we should do better in order to assure better fairness in tax payments.

Now, the subcommittee may submit to you additional questions. We have a committee action on the floor right now with respect to the MFN for China and also our full committee is underway on another bill, a markup, and I want to protect my own interests.

So I am going to call this hearing to a close, but to thank each of you for your testimony this morning.

The hearing is adjourned.

[Whereupon, at 11:25 a.m., the hearing was adjourned.]

[A submission for the record follows:]

Before the
Subcommittee on Oversight
Committee on Ways and Means
United States House of Representatives

IRS Accounts Receivable Inventory

Statement for the Record
National Society of Public Accountants

## I. INTRODUCTION AND IDENTIFICATION OF INTEREST

The National Society of Public Accountants ("NSPA") is pleased to submit the following statement for the record in response to recent hearings before the House of Representatives Ways and Means Subcommittee on Oversight regarding the Federal government's inclusion in Internal Revenue Service's ("IRS") accounts receivable inventory ("the inventory").

The National Society consists of over 23,000 individuals, most of whom are sole practitioners or partners in small-sized public accounting firms. NSPA members provide accounting, auditing, tax return preparation, representation before the Internal Revenue Service, tax planning, financial planning, and managerial advisory services to approximately six million individual and small business clients. The members of NSPA are pledged to a strict code of professional ethics and rules of professional conduct.

## II. THE HEARING

The Oversight Subcommittee's most recent look at the IRS accounts receivable inventory clearly demonstrated that the overwhelming complexity of the current payroll deposit system is one of the major causes of the inventory's size.

Given testimony from both the IRS and the General Accounting Office to the effect that the great majority of postings to the inventory relating to the Federal government were the result of error (and not taxes owed), few would argue that confusion reigns in this area of the tax law.

Given statements of IRS Commissioner Fred T. Goldberg, Jr. that fully one-third of the nation's employers are assessed payroll tax deposit penalties annually, it is apparent that the system -- not the participants -- is the cause of the problem.

## III. NSPA'S PERSPECTIVE

The Subcommittee hearing touched on the considerable embarrassment that the revelation of Federal delinquencies will cause the government. The National Society is indeed sensitive to this difficult problem. However, NSPA would be less than candid if it did not express its disappointment with the solution proposed at the hearings: special rules for the Federal government.

The unavoidable question this solution raises of course, is, what about the rest of the country? Certainly, Congress has an obligation to "get the Federal house in order"; however, NSPA would remind the Subcommittee that the Internal Revenue Code is a part of that house. The payroll deposit rules contained in that Code are overwhelming the nation's taxpayers. We therefore encourage the Subcommittee to examine ways to simplify compliance for all employers, and not just for the Federal government.

## IV. CONCLUSION

The National Society appreciates the opportunity to make this statement for record and applauds the Subcommittee on Oversight. The issues raised by these proceedings are indeed of great importance, and NSPA stands ready to assist in any way possible the Subcommittee in its continuing review. To that end, related enquiries should be directed to Peter M. Berkery, Jr., Director of Congressional Relations - Tax Counsel.

Respectfully submitted,

Richard T. Garlock

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October 25, 1990